

**Audit Committee Meeting
of the Board of Regents**

**John B. Connally Visitor Center
1651 E. Crest Dr.
Waco TX 76705***

**Thursday, November 7, 2024
9:30 a.m.**

AGENDA

[Lizzy de la Garza Putegnat (Chair), Robb Misso]

**I. MEETING CALLED TO ORDER BY AUDIT COMMITTEE CHAIR LIZZY DE LA GARZA
PUTEGNAT**

II. COMMITTEE CHAIR COMMENTS

III. MINUTE ORDERS & REPORTS

- | | |
|---|---------------------------------|
| 1. Internal Audit Charter – Review and Reapproval | A-1
<i>Jason D. Mallory</i> |
| 2. Status of Fiscal Year 2024 Audit Schedule & Other Projects | A-8
<i>Jason D. Mallory</i> |
| 3. Status of Fiscal Year 2025 Audit Schedule & Other Projects | A-13
<i>Jason D. Mallory</i> |
| 4. Status of Construction Audits | A-15
<i>Jason D. Mallory</i> |
| 5. Summary of Audit Reports | A-16
<i>Jason D. Mallory</i> |
| 6. Follow-up Schedule & Status | A-19
<i>Jason D. Mallory</i> |
| 7. Internal Audit Annual Report – Fiscal Year 2024 | A-27
<i>Jason D. Mallory</i> |

**Presiding officer will be physically present at this address.*

(c) denotes Consent Agenda Item

- | | |
|--|---------------------------------------|
| 8. Annual Confirmation of Organization & Individual Independence | A-40
<i>Jason D. Mallory</i> |
| 9. Annual Statement on Quality Control | A-41
<i>Jason D. Mallory</i> |
| 10. Internal Network Penetration Test (24-029A) – West Texas | A-43
<i>Jason D. Mallory</i> |
| 11. Senate Bill 17 Audit (25-001A) | A-49
<i>Jason D. Mallory</i> |
| 12. Audit of the Texas Workforce Commission Contract (25-002A) | A-52
<i>Jason D. Mallory</i> |
| 13. Annual Contract Audit (25-002A) | A-56
<i>Jason D. Mallory</i> |
| 14. Fleet Management Audit (24-025A) | A-59
<i>Jason D. Mallory</i> |
| 15. TAC 202 Compliance – Quarterly Update (25-007A) | A-70
<i>Jason D. Mallory</i> |
| 16. A Report on Compliance with Public Funds Investment Act | A-74
<i>State Auditor's Office</i> |
| 17. FY 22 Perkins Desk Review Management Letter | A-82
<i>THECB</i> |
| 18. Attestation Disclosures | A-83
<i>Jason D. Mallory</i> |

IV. CHANCELLOR COMMENTS

V. BOARD COMMENTS

VI. ADJOURN

**Presiding officer will be physically present at this address.*

(c) denotes Consent Agenda Item



Board Meeting Date: November 7, 2024 **Proposed Minute Order #:** IA 02-24(c)

Proposed By: Jason D. Mallory, Vice Chancellor & Chief Auditor

Subject: Internal Audit Charter - Review and Reapproval

Background: The Texas Internal Auditing Act, Chapter 2102 of the Texas Government Code, requires all State agencies that have an operating budget that exceeds \$10 million, has more than 100 full-time equivalent employees, or receives and processes more than \$10 million in cash in a fiscal year have an internal audit function. Each internal audit function must be led by a person who is either a certified public accountant or certified internal auditor. The internal audit function shall also conform to the Standards for the Professional Practice of Internal Auditing, the Code of Ethics contained in the Professional Practices Framework as promulgated by the Institute of Internal Auditors, and generally accepted government auditing standards.

The Professional Practices Framework requires a charter be adopted by the governing board which defines the responsibilities and authority of the internal audit function. This charter must be reviewed periodically for changes. Traditionally, this review and approval has been performed annually at the Fall meeting of the TSTC Board of Regents. This review and reapproval was last performed on November 9, 2023, at Minute Order #IA 03-23(c).

Justification: This minute order is intended to satisfy the annual review and reauthorization requirement of the charter for fiscal year 2025. The attached charter is intended to be a stand-alone document, subject only to the review of the Audit Committee, and approval by the Board of Regents. The charter defines the purpose, role, authority, reporting structure, and responsibilities of the Internal Audit Department.

Additional Information: None

Fiscal Implications: No significant fiscal impact.

Attestation: The Minute Order is in compliance with all applicable laws and regulations to the best of my knowledge.

Attachment(s): Internal Audit Charter

Recommended Minute Order: “The Texas State Technical College Board of Regents approves the Internal Audit Charter which grants specific authority, responsibilities and limitations to the Internal Audit Department.”

Recommended By: [ORIGINAL SIGNED BY]
Jason D. Mallory, Vice Chancellor & Chief Auditor



INTERNAL AUDIT CHARTER

INTRODUCTION

Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

PURPOSE

The purpose of the Department of Internal Audit at Texas State Technical College (TSTC) is to provide the Board of Regents an independent appraisal of the adequacy and the effectiveness of the College's system of internal controls as they relate to accounting, operating, and compliance objectives, and the quality of performance when compared with established standards. The primary objective is to assist the Board of Regents, Chancellor and management in the effective discharge of their responsibilities.

ROLE

The internal audit activity is formally established by Texas Government Code, Title 10, Subtitle C, Chapter 2102, otherwise known as the Texas Internal Auditing Act. The Department of Internal Audit is the College's internal audit activity. The Audit Committee of the Board of Regents provides oversight. The Department of Internal Audit works to be a trusted advisor to management in the areas of governance, risk management and internal controls.

PROFESSIONALISM

The Institute of Internal Auditors' mandatory guidance, which include the Definition of Internal Auditing, the Code of Ethics, the Core Principles, and International Standards for the Professional Practice of Internal Auditing (Standards), as well as Generally Accepted Government Auditing standards and the Texas Internal Auditing Act provide structure for the Department of Internal Audit. This mandatory guidance constitutes principles for the fundamental requirements for the Professional Practice of Internal Auditing, and for evaluating the effectiveness of the Department of Internal Audit's performance.

The Institute of Internal Auditors' Implementation Guidance and Supplemental Guidance will also be adhered to as applicable. In addition, the Department of Internal Audit will

adhere to relevant TSTC policies and procedures, as well as performance requirements set forth in a departmental maintained procedures manual.

AUTHORITY

The Department of Internal Audit, with strict accountability for confidentiality and safeguarding records and information, is authorized unrestricted access to any and all TSTC records, both manual and electronic; physical properties and assets; activities; systems; and personnel pertinent to carrying out any approved engagement. All TSTC employees should try in a timely and ethical manner to assist the Department of Internal Audit in fulfilling its roles and responsibilities when requested for an audit, investigation, or other activity. The Chief Audit Executive (CAE) will also have free and unrestricted access to the Audit Committee.

ORGANIZATION

The Department of Internal Audit is an integral part of TSTC and functions in accordance with the policies established by the Board of Regents. To provide for the independence of the Department of Internal Audit, the CAE is appointed directly by the Board of Regents. The CAE reports functionally to the Board of Regents, but administratively to the Chancellor.

The CAE will communicate and interact directly with the Audit Committee during committee meetings, executive sessions where allowed by law, and between committee meetings, as appropriate and needed. Responsibilities of the Audit Committee are outlined in the Board of Regents' Bylaws.

INDEPENDENCE AND OBJECTIVITY

The Department of Internal Audit will remain free from interference by any element in the College. No manager may interfere with, or have undue influence on, audit selection, scope, audit procedures and techniques, frequency, timing, or report content. This is intended to maintain a necessary independent and objective mental attitude.

Internal auditors will have no direct operational responsibility or authority over any activity outside of the Department of Internal Audit. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment or ability to act without bias. Internal auditors may provide assurance services where they have previously performed consulting services provided the nature of the consulting did not impair objectivity, and provided individual objectivity is managed when assigning resources to the engagement.

Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The CAE will confirm to the Audit Committee at least annually the organizational independence of the Department of Internal Audit and its staff members.

RESPONSIBILITY

The Department of Internal Audit's scope encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the College's governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the College's stated goals and objectives. This includes:

- Developing a flexible, annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submitting that plan to Audit Committee for review and to the Board of Regents for approval on an annual basis.
- Developing and utilizing a systematic, disciplined approach for performing internal audits.
- Providing audit coverage that consistently meets the needs and expectations of the Board of Regents, Chancellor, and oversight agencies where applicable.
- Developing relationships throughout the College to become a trusted advisor to management on risk management, governance and internal control matters.
- Maintaining a professional audit staff with sufficient knowledge, skills, abilities, experience, and professional certifications.
- Evaluating risk exposure relating to achievement of the College's strategic objectives.
- Evaluating the reliability and integrity of financial and operational information and the means used to identify, measure, classify, and report such information.
- Evaluating the systems established to ensure compliance with policies, plans, procedures, laws, and regulations which could have a significant impact on the College.
- Evaluating compliance with laws, regulations, policies, procedures, and controls.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which resources are employed.
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned and the effectiveness and efficiency of the operations and programs.
- Evaluating risk management, control, and governance processes.
- Coordinating with external auditors and serving as a liaison, as applicable.
- Performing consulting services related to governance, risk management and control as appropriate, and documenting the understanding of the consulting engagement objectives, scope, responsibilities and expectations for significant engagements.

- Performing advisory services related to governance, risk management and control, as appropriate. Such services may include management requests, participation on College committees, policy reviews, and participation on teams for information technology projects and business process improvements.
- valuating specific operations at the request of the Audit Committee or management, as appropriate.
- Conducting inquiries or investigations of suspected fraudulent activities in accordance with SOS GA 1.15, Fraudulent Use of Assets and Resources.
- Assisting with the anti-fraud program for the College by implementing an anonymous fraud hotline per SOS GA 1.17, Fraud Hotline.
- Facilitating risk assessment processes with management.
- Maintaining a list of management corrective action plans from audits and projects, and performing follow-up audits on those plans as necessary.
- Providing a systematic, disciplined approach to evaluate and improve the effectiveness of the Colleges risk management, control, and governance processes related to contracts and risk-based testing of contract administration as required by Texas Education Code, Section 51.9337(h).
- Presenting educational opportunities periodically to the Audit Committee on the subject of internal auditing and risk management.
- Staying abreast of current risk, regulatory, and audit trends, and communicating those to management and the Audit Committee, as appropriate.

INTERNAL AUDIT PLAN

At least annually, the CAE will submit to the Board of Regents an internal audit plan for review and approval. The internal audit plan will consist of a work schedule as well as budget and resource requirements for the next fiscal year. The internal audit plan will be developed based on a prioritization of the audit universe using an appropriate risk-based methodology, including input of Executive and Senior managers, and the Board of Regents. The CAE will consider audits, at a minimum, of information security, contracts, contract administration, investments, and other areas. The CAE will review and adjust the plan, as necessary, in response to changes in the internal audit resource levels or those of the College's business, risks, operations, programs, systems, and controls. Any significant deviation from the internal audit plan will be communicated to the Audit Committee and approved by the Board of Regents.

REPORTING AND MONITORING

The CAE will communicate the results of each internal audit engagement to the appropriate managers in the form of a written report. Internal audit results will also be communicated to the Audit Committee and state and federal oversight agencies as required.

Communication of results of each engagement may vary in form and content depending upon the nature of the engagement and the needs of the client. Where applicable, a formal internal audit report will include management's response and corrective action taken or to

be taken in regard to the specific findings and recommendations. Management's response should include a responsible person and implementation date for all anticipated corrective action plans.

The Department of Internal Audit will follow-up on management corrective action plans to address engagement findings and recommendations, and will report the results to appropriate management members and the Audit Committee. All significant findings will remain as open issues until reviewed and cleared by the Department of Internal Audit.

The Department of Internal Audit will fulfill reporting requirements for audit reports and the annual report, including the annual audit plan, as prescribed by the Texas Internal Auditing Act.

The CAE will periodically report to the Audit Committee on the Department of Internal Audit's purpose, authority, and responsibility, as well as performance relative to its audit plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Audit Committee.

QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

The CAE will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing, the Core Principles, and the Standards. The program also assesses the efficiency and effectiveness of the Department of Internal Audit and identifies opportunities for improvement.

The CAE will communicate to the Audit Committee the Department of Internal Audit's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every three years.

RELEVANT STATUTES AND POLICIES

- Texas Internal Auditing Act
- Applicable College Statewide Operating Standards Regulations
- SOS GA 1.14, Audits and Reviews by External Auditors
- SOS GA 1.15, Fraudulent Use of Assets and Resources
- SOS GA 1.16, Reporting of Wrongdoing or Retaliation
- SOS GA 1.17, Fraud Hotline
- Texas Education Code, Section 51.9337(h)

APPROVAL

The Internal Audit Charter was last submitted by the CAE for review by the Audit Committee and approval by the Board of Regents on November 9, 2023 at Minute Order #IA 03-23(c).



**Texas State Technical College
Internal Audit
Status of Fiscal Year 2024 Audit Schedule & Other Projects**

Description	Division/Campus	Status	Project No.	Report Date	Last Audit Date	Audit Reason
INTERNAL AUDITS						
Accounting Controls Audit	Foundation/Finance	Complete	24-001A	9/6/23	9/9/22	Risk Based
Public Funds Investment Act Compliance Audit	Finance	Complete	24-005A	11/10/23	9/24/21	Required every 2 years
Grant Audit	Office of Sponsored Programs	Complete	24-008A	12/4/23	-	Risk Based
Payment Card Industry (PCI) Audit	OIT	Complete	24-002A	2/12/24	5/14/18	Risk Based
Safety & Security Audit	Safety	Complete	24-007A	3/22/24	4/12/21	Risk Based
Procurement Cards Audit	Procurement	Complete	24-018A	5/14/24	2/22/11	Risk Based
CRIMES System TAC 202 Audit	Police/OIT	Complete	24-017A	5/23/24	-	Risk Based
Internal Network Penetration Test	Marshall Campus	Complete	24-024A	6/6/24	3/26/21	Risk Based
Internal/External Quality Assessment Review	Internal Audit	Complete	24-004A	6/14/24	7/15/21	Required every 3 years
Student Grievance Process Audit	Operations	Complete	24-022A	6/27/24	-	Risk Based
TAC 202 Follow-up Audit	OIT	Complete	24-009A	7/1/24	10/31/202, 12/31/2023, 3/31/2024	Required Bi-annually
Internal Network Penetration Test	West Texas Campuses	Complete	24-029A	8/9/24	12/14/20	Risk Based
Fleet Management Audit	Fleet	Complete	24-025A	9/26/24	5/11/11	Risk Based
TEC 51.9337 (Contracting) Audit	Contract Office	Complete	24-038A	9/19/24	5/18/23	Required Annually
Construction Audits	Facilities, Planning & Construction		24-006A			
JBC Remodel		In Progress			-	Risk Based
Waco Annex		In Progress			-	Risk Based
Abilene CCAP		In Progress			-	Risk Based
Waco CCAP		In Progress			-	Risk Based
Marshall CCAP		In Progress			-	Risk Based
Fort Bend CCAP		In Progress			-	Risk Based
EEC & TSC Renovation		In Progress			-	Risk Based
Harlingen CCAP		In Progress			-	Risk Based
EXTERNAL AUDITS						
FMLA Investigation performed by the Department of Labor - determined the complaint by former employee had no merit.	HR	Complete			11/20/23	
Summary - State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2023 by the State Auditor's Office	Finance	Complete	SAO 24-555		2/22/24	
Summary - State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2023 by the State Auditor's Office	Finance	Complete	SAO 24-316		2/22/24	

Summary - Report on Full-time Equivalent State Employees for Fiscal Year 2023 by the State Auditor's Office	HR	Complete	SAO 24-703	2/22/24
FY 2023 Single Audit Evaluation Management Letter by the THECB	Finance	Complete		6/17/24
Post Payment Audit performed by the Comptroller's Office	Procurement, Accounting	In Progress		
Investigation by the State Auditor's Office related to a specific vendor.		In Progress		

OTHER INTERNAL PROJECTS

Internal Hotline: Received an anonymous concern of potential illegal drug use in a dorm. Results: The report was forwarded to housing personnel and the police for review and resolution. As of 12/11/2023, drug use has not been observed.	Housing - Waco	Complete	24-0161	N/A
Internal Hotline: Received an anonymous concern from a parent complaining about being required to purchase a meal plan Results: The report was forwarded to Campus Services to consider whether there opportunities to improve meal plan guidelines. IA considered this a management matter, and not representative of fraud, waste, and abuse.	Campus Services	Complete	24-0111	N/A
Internal Hotline: Received an anonymous report of an instructional designer having a second job. There were no details regarding conflict of time, misuse of equipment, etc. Results: This was forwarded to the AVC - Instructional Shared Services. The instructional designer completed a conflict of interest disclosure that will be considered by the COI committee. His supervisors do not feel he has a conflict, but the COI committee will make the final determination.	Operations	Complete	24-0101	12/20/23
Management Report: Received a report that an employee misused her travel card. Results: Identified almost \$800 in either disallowed or wasteful purchases. Employee was terminated prior to the completion of the review for an unrelated performance matter.	Accounts Payable	Complete	24-0131	1/9/24

<p>Internal Hotline: Received an anonymous concern of inappropriate hiring practices Results: The report was forwarded to HR for investigation. They did not find evidence of inappropriate hiring practices.</p>	Retention Services	Complete	24-0141	2/19/24
<p>Internal Hotline: Received an anonymous complaint that of inconsistent practices related to offsite team building, and a lack of transparency of raises and bonuses. Results: The report was forwarded to Operations staff and HR. Offsite meetings require upper level approval, the intent of such meetings being aligned with departmental goals. It was also discovered that management were trained in the merit cycle and share information with their employees. No wrongdoing was identified.</p>	Retention Services	Complete	24-0151	2/19/24
<p>Internal Hotline: Received 3 separate anonymous concerns related to student retention practices conflicting sometimes with enrollment goals, CARE team concerns and other accusations directed towards management of those areas. Results: The reports were referred to the managers in those areas. Management spoke with specific employees on the Waco campus to explain retention practices. They reviewed Maxient reports, and determined reports were acted on timely. And revised language to more clearly communicate to people making reports fo concerns that those concerns are being received and acted upon. There is no evidence that wrongdoing took place.</p>	Retention Services	Complete	24-0121, 201 & 211	2/25/24
<p>Internal Hotline Report: Received a concern through Ethical Advocate regarding assistance given to a Dual Enrollment student. Results: Determined no compliance steps were disregarded, and action that was taken was reviewed and approved by various levels of management.</p>	Dual Enrollment/Retention Services - Marshall Campus	Complete	24-0271	5/16/24

Request by management: We were notified of questionable travel card transactions by an employee. Results: We identified isolated instances where charges for travel expenses were more than available alternatives. Management implemented procedures to correct this activity.	HR	Complete	24-0261	6/28/24
Request by management: Expressed concerns about certain data on a tax related document. Results: An accounting firm is currently reviewing the results of the investigation, and helping formulate corrective actions.	Payroll	In progress		
State Auditor's Hotline: We received an anonymous complaint that the Administrative Accounting Report (AAR) filed with the LBB intentionally omitted non-salary benefits in the form of condos in Austin for key executives. Results: We concluded that the condominiums were not taxable fringe benefits by reviewing IRS rules and guidance. We found the omission of the costs on the AAR was appropriate because they were not compensation, rather travel expenses.	Legislative	Complete	24-0321	7/19/24
State Auditor's Hotline: We received an anonymous report from a 3rd party about a student allegedly experiencing racism and being bullied. Results: We were unable to validate the accusation because the alleged victim was unknown.	Operations	Complete	24-0311	7/22/24
Request by management: A manager in the Testing area requested assistance with developing a self-audit checklist. We prepared a template for her to build upon.	Operations	Complete	24-035P	7/26/24
Request by management: The Waco Provosts Office informed us of an instructor possibly using a College vehicle for personal use. Results: We validated the suspicion through direct observation, and the instructor admitted the activity. He was immediately separated from employment.	Operations	Complete	24-0341	7/29/24

<p>State Auditor's Hotline: We received a complaint from a named student alleging financial aid fraud, records tampering, and numerous other issues. Results: We did not find any of the complaints to have merit. They appeared frivolous based on the student's history of making complaints when requests for money are denied.</p>	<p>Operations</p>	<p>Complete</p>	<p>24-0331</p>	<p>7/30/24</p>
--	-------------------	-----------------	----------------	----------------

<p>Glossary</p>	
<p>HR</p>	<p>Human Resources</p>
<p>IA</p>	<p>Internal Audit</p>
<p>OIT</p>	<p>Office of Information Technology</p>
<p>SAO</p>	<p>State Auditor's Office</p>
<p>TEC</p>	<p>Texas Education Code</p>
<p>TAC</p>	<p>Texas Administrative Code</p>
<p>THECB</p>	<p>Texas Higher Education Coordinating Board</p>



**Texas State Technical College
Internal Audit
Status of Fiscal Year 2025 Audit Schedule & Other Projects**

Description	Division/Campus	Status	Project No.	Report Date	Last Audit Date	Audit Reason
INTERNAL AUDITS						
SB 17 Compliance Audit	Human Resources/Legal	Complete	25-001A	8/19/24	-	Compliance Based
TWC Contract Audit	Business Intelligence	Complete	25-002A	9/12/24	5/16/22	Risk Based
TAC 202 Follow-up	OIT	In Progress	25-007A	10/1/24	7/1/24	Risk Based
Workforce Training	Workforce Training	In Progress			10/12/18	Risk Based
Travel Expense Audit	Procurement	In Progress			6/28/24	Risk Based
Clery Audit	Safety & Security	In Progress			4/8/20	Compliance Based
Internal Network Penetration Test	North Texas	In Progress			6/9/22	Risk Based
Internal Network Penetration Test	Fort Bend	In Progress			1/4/22	Risk Based
Internal Network Penetration Test	New Braunfels	In Progress			-	Risk Based
Audit of Federal Financial Aid	Financial Aid				3/21/17	Risk Based
Student Discipline Process	Retention Services				-	Risk Based
Hiring Process	Human Resources				-	Risk Based
Tuition Audit	Finance				3/29/22	Risk Based
Syllabi Audit	Operations				-	Risk Based
Workday - TAC 202 Audit	OIT				-	Risk Based
TEC 51.9337 (Contracting) Audit	Contract Office				9/19/24	Risk Based
Construction Audits	Facilities, Planning & Construction		24-006A			
JBC Remodel		In Progress			-	Risk Based
Waco Worksite		In Progress			-	Risk Based
Abilene CCAP		In Progress			-	Risk Based
Waco CCAP		In Progress			-	Risk Based
Marshall CCAP		In Progress			-	Risk Based
Fort Bend CCAP		In Progress			-	Risk Based
EEC & TSC Renovation		In Progress				Risk Based
Harlingen CCAP		In Progress			-	Risk Based
EXTERNAL AUDITS						
Compliance with Public Funds Investment Act and Rider 5, General Appropriations Act, Reporting Requirements by the State Auditor's Office	Finance	Complete	24-020	8/31/24		
Post Payment Audit performed by the Comptroller's Office	Procurement, Accounting	In Progress				
OTHER INTERNAL PROJECTS						
Internal Hotline: Received a complaint that a supervisor abused his authority by requiring an employee to perform tasks that he was not responsible for. Results: The allegation was forwarded to HR for review and resolution. They did not identify any wrongdoing on the part of the supervisor.	OIT	Complete	24-0391	8/22/24		

Internal Hotline: Received an anonymous concern alleging a supervisor does not foster an environment which makes TSTC a great place to work. Results: The concern was forwarded to HR. They did not identify any violation of policies by the supervisor.	Testing	Complete	24-0361	8/30/24
Internal Hotline: We received a report from a student regarding a phishing scam she was the target of regarding a fake employment opportunity. Results: We referred the report to OIT, Career Services and Enrollment Services. All employees and students were notified of the scam, all students who responded to the scam were contacted to help remediate any losses they suffered, and procedures were implemented to shutdown the path the scammer utilized. It does not appear the scam was successful.	OIT, Enrollment Services	Complete	25-0081	No report was issued. This was handled by OIT.
Management Report: We were notified in late August of a suspicion of 2 employees using surplus property for personal use. Results: Validated the suspicion, but determined their actions were largely caused by a misunderstanding due to a language barrier.	Physical Plant/Surplus Property	Complete	25-0091	9/20/24

Glossary	
HR	Human Resources
IA	Internal Audit
OIT	Office of Information Technology
SAO	State Auditor's Office
TEC	Texas Education Code
TAC	Texas Administrative Code
THECB	Texas Higher Education Coordinating Board

**Construction Audits
Status Report
June 27, 2024**

In Progress

TSTC - Project Name	Contractor	Estimated Substantial Completion	GMP	Audit Cost	Agreed to Audit Issues	Status from R. L. Townsend Construction Audit Services
JBC Remodel	Imperial	02/28/2024	\$ 13,020,898	\$ 16,500	\$ 47,812	Audit Entrance Meeting 4/26/2023 Substantial Completion was extended to 9/15/2024 Draft Report in Process
Marshall CCAP	Bartlett Cocke	11/01/2024	\$ 9,163,093	\$ 16,500	\$ 18,202	Audit Entrance Meeting 2/14/2024 AQ Log issued GC Labor burden agreed to at 30% Preparing document request for closeout
Waco Worksite	Mazanec	12/05/2024	\$ 12,000,000	\$ 16,500	TBD	Audit Entrance Meeting 8/17/2023 AQ Log issued GC Payroll review complete Agreed to remove sales tax from dumpster rentals Audit is progressing - nothing significant identified yet.
Harlingen CCAP	JT Vaughn	04/22/2025	\$ 46,526,257	\$ 52,000	TBD	Audit Entrance Meeting 5/23/24 Construction is billed 7.07% An agreed upon evolving process has been developed for GC labor reviews. Audit is in early stages
EEC & TSC Reno (CSP)	Imperial	04/29/2025	\$ 9,300,000	\$ 8,500	TBD	Audit Entrance Meeting 4/17/2024 Audit is progressing - nothing significant identified yet.
Abilene CCAP	Imperial	06/16/2025	\$ 20,000,000	\$ 22,000	TBD	Audit Entrance Meeting 11/15/2023 NTP 3/20/2024 Initial Audit review complete - AQ Log issued to TSTC
Fort Bend CCAP	JT Vaughn	08/01/2025	\$ 42,000,000	\$ 48,000	TBD	Audit Entrance Meeting 2/22/2024 An agreed upon evolving process has been developed for GC labor reviews.
Waco CCAP	Rogers OBrien	09/02/2025	\$ 59,600,000	\$ 65,000	TBD	Initial Audit review complete - AQ Log to be issued Audit Entrance Meeting 11/17/2023 Construction is billed 10.77% Audit is in early stages
Total			\$ 211,610,248	\$ 245,000	\$ 66,014	

Complete

TSTC - Project Name	Contractor	Substantial Completion	Final Contract Value	Audit Cost	Audit Recovery	Status from R. L. Townsend Construction Audit Services
Griffith Hall	Lee Lewis	completed	\$ 21,212,688	\$ 15,000	\$ 278,281	Final Report issued 7/20/2022
FTB Welding	Bartlett Cocke	completed	\$ 8,089,004	\$ 11,000	\$ 55,977	Final Report issued 8/24/2023
Total			\$ 29,301,692	\$ 26,000	\$ 334,258	
Grand Total			\$ 240,911,940	\$ 271,000	\$ 400,272	



**Texas State Technical College
Internal Audit
Summary of Audit Reports**

Report Name & No.	Audit Finding	Summary of Finding Support	Management's CAP(s)	Resp. Sr Mgr	Expect. Complete Date
Internal Network Penetration Test (24-029A)	1. There are opportunities to improve physical and IT security controls.	1. Six employees provided logon credentials to Workday. 2. 10 open ports on the internal network 3. 1 device using default administrator credentials. 4. 1 building unlocked during and after business hours on the Sweetwater campus, and boxes of old records unsecured. and 2 unlocked storage areas at the Abilene East Campus.	1.1 Each employee who submitted responses to the phishing emails will be required to take enhanced training. The campus will be reminded periodically of security risk.	Weaver	Completed Immediately

Audit of Compliance to Senate Bill 17 of the 88th Legislature (25-001A)	1. No findings noted.
--	-----------------------

Audit of the Texas Workforce Commission Contract (25-002A)	1. The encryption of the server on which the confidential data is stored needs to be increased to a 256-bit standard as required by the TWC Contract.	The server where the data is stored historically used 128-bit encryption.	1.1 256-bit encryption was implemented immediately	Franke	Completed Immediately
---	---	---	--	--------	-----------------------

Annual Contract Audit (24-038A)	1. No findings noted.
--	-----------------------

Fleet Management Audit (24-025A)	1. Some controls used to effectively manage the fleet are not operating.	Found opportunities to improve processes related to driver verification, maintenance, accidents, use, and fuel purchases.	1.1 Driver eligibility, accident process, GPS Tracking, and fuel monitoring will be enhanced.	Sondermann	1/31/25
	2. Vehicles labeled as educational are generally not subject to the same controls applied to fleet vehicles, even though some are being used like fleet vehicles.	We identified 173 vehicles that are owned by the College. Of those, 55 are recognized as part of the College's fleet. These 55 are subject to some of the fleet controls, but there are gaps in controls related to driver verification, legitimate use, and maintenance/registration. Insurance coverage could also possibly be a gap.	2.1 Will partner with Property Management to identify the use of current educational vehicles, and explore ways to manage them.	Sondermann	11/1/24
			2.2 Work with Procurement to streamline a workflow for new vehicles.	Sondermann	1/31/25

TAC 202 Compliance – Quarterly Update (25-007A)	1. 4 more controls were implemented. There are 31 controls still outstanding from audits performed within the last year.
--	--

A Report on Compliance with Public Funds Investment Act by the State Auditor's Office	1. Minor reporting exception related to maturity dates identified by Internal Audit in their audit.
--	---

**FY 2022 Perkins
Desk Review
Management
Letter by the
Texas Higher
Education
Coordinating
Board**

1.

No findings noted.



Texas State Technical College
Internal Audit
Follow Up Schedule & Status

Completion Summary			
	6/30/24	9/30/24	Audits cleared from (Added to) Schedule
Audits from FY 2023	4	4	0
Audits from FY 2024	6	7	(1)
Audits from FY 2025	0	1	(1)
Net Total	10	12	(2)

Highlights:

T Drive Audit (23-012A): 3 controls were implemented. Corrective actions are substantially complete.
Personal Property Audit (23-003A): Substantially complete; RFID implementation is over 95% implemented.
Internal Network Penetration Test (24-024A): All tasks complete.
Travel Card Investigation (24-026I): All tasks are complete.
Internal Network Penetration Test - West Texas (24-029A): All corrective action was completed.
Texas Workforce Commission Contract (25-002A): All corrective action was completed.

Report Name & No., Resp. Sr Mgr	Internal Audit Finding	Management's CAP(s)	Internal Audit Comments on Status	Management Comments on Status	Expect. Complete Date

Report Name & No., Resp. Sr Mgr	Internal Audit Finding	Management's CAP(s)	Internal Audit Comments on Status	Management Comments on Status	Expect. Complete Date
T Drive Audit (23-012A), McKee	1. We identified 4 of 41 required TAC 202 controls that still need to be implemented. These controls relate to audit logs and periodic testing of the back-up files. The control related to testing back-ups was implemented during our audit, but we would like more history of operation before concluding it is fully implemented.	1.2 OIT will have a written plan to periodically test system backup and recovery that will include the creation of an OIT ticket to track the testing of the T:Drive. This plan will include a spreadsheet where the tickets will be tracked for the annual backup and recovery testing of the T:Drive.	Substantially Complete: Progress is being made, but not yet completed. 9/27/24 - This will clear once a table top exercise is performed.	This testing will be moved into our Disaster Recovery plan and Testing, which is under the IT General controls section of this document.	8/31/25
Personal Property Verification Audit (23-003A), Boykin	1. There are opportunities to improve control processes to ensure accurate recordation and safeguarding of personal property more effectively and efficiently.	1.1 RFID asset tag technology will be implemented as part of the annual inventory process. The RFID initiative will be implemented in phases, strategically beginning with specific high value and/or high-volume areas. 1.2 "Spot checks", each month, will be performed by Inventory Control staff beginning no later than September 2023. The spot checks will focus on high volume / high risk groups of assets. We will target no less than 50 assets each month, hopefully increasing spot check volume as the new process matures.	Substantially Complete: At 9/27/24, 95% of assets have been tagged Statewide using the new RFID System. Samples tested at Waco & Harlingen validated this percentage, but more assets at other campuses will be tested over the next several months.	We now have confirmed onsite days with the vendor. We are hosting two training events, first will be in Waco on 4/23 and the second will be in Harlingen on 5/1. We will be bringing in inventory control from all of the other campuses in for this training. Once complete, they will start to work on their respective campuses.	Anticipated date of completion is 8/31/2024
			Substantially Complete- See note in 1.1		Anticipated date of completion is 8/31/2024

Report Name & No., Resp. Sr Mgr	Internal Audit Finding	Management's CAP(s)	Internal Audit Comments on Status	Management Comments on Status	Expect. Complete Date
<p>Audit of IT General Controls (23-018A), McKee</p>	<p>1. We identified 6 of 34 required TAC 202 controls that still need to be implemented. These controls relate to testing of the contingency and disaster recovery plans, physical and environmental access controls to the data centers, and the need to consider enhancements to controls related to mobile devices.</p>	<p>1.1 Implement a solution to assist in the authorizing, monitoring, and control of mobile devices accessing TSTC information pending available funding to implement the solution. This solution will allow TSTC to be able to monitor mobile devices that are enrolled in a Bring Your Own Device (BYOD) plan.</p>	<p>Ongoing: Budgeting still needs to be looked at and software for mobile device management still needs to be researched.</p>		12/1/26
		<p>1.2 Update and test the disaster recovery plan by performing a tabletop exercise which will serve as training for those involved in the Disaster Recovery Plan. This plan will be updated and tested on an annual basis going forward.</p>	<p>Ongoing: Progress is being made, but not yet completed. 9/27/24 - This will clear once a table top exercise is performed.</p>	<p>Currently reviewing DR Plan and Recovery Procedures. The testing dates could change depending on how long it take to update the documentation.</p>	8/31/25
<p>Payroll and Benefits Proportionality Audit (23-019A), Sill, Motwani</p>	<p>1. Select payroll deductions for some employees are not being calculated properly by Workday. Additionally, Workday is not correctly handling TRS benefits for new members past their 90th day of employment.</p>	<p>1.2 We have engaged our Workday vendor to assist with the correction. The calculation will be correct by October 2023, and Payroll will continue to audit all new hires for correct calculation until the correction is tested and verified.</p>	<p>Ongoing: 6/20/24 This issue has not been resolved. Due to the low population, this is affecting, other more important issues have taken priority. A completion date has been set.</p>		12/31/24

Report Name & No., Resp. Sr Mgr	Internal Audit Finding	Management's CAP(s)	Internal Audit Comments on Status	Management Comments on Status	Expect. Complete Date
	2. Workday is including non-benefits eligible pay items in the proportionality calculation.	2.1 The Accounting Office will work with Workday consultants to find the best solution for this. In the meantime, the Accounting Office will continue to review and spot check the proportionality in the monthly payroll review.	Ongoing: 6/20/24 This issue has not been resolved. Due to the low population, this is affecting, other more important issues have taken priority. A completion date has been set.		12/31/24
Public Funds Investment Act Audit (24-005A), Motwani	1. We identified three minor exceptions related to incorrect maturity dates and an interest rate reported on the May 31, 2023, Quarterly Investments Report. Additionally, we noted one exception on the May 31, 2023 Pledged Collateral Report, which overstated collateral by \$11,192. With stated collateral adjusted for the error, the collateral amount was still more than sufficient.	1.1 The investment report and collateral report will be reviewed more closely, and an automated element will be added to prevent human error. By February 29, 2024, Workday reports will be created to pull this data directly from bank statements rather than manually inputting this data.	Ongoing 6/20/24 The automated Workday report has not yet been created.		12/31/24
PCI Audit (24-002A), McKee, Franke	1. Twenty four of the 103 applicable controls we tested require attention. Primarily, those controls required better documentation. But, we did identify opportunities to improve anti-virus software implementation, multi-factor authentication, and the incident response plan.	1.1 Documentation and processes will be created to address the findings.	Ongoing		12/31/24

Report Name & No., Resp. Sr Mgr	Internal Audit Finding	Management's CAP(s)	Internal Audit Comments on Status	Management Comments on Status	Expect. Complete Date
<p>Safety & Security Audit (24-007A), Various Managers</p>	<p>1. There are safety processes and issues throughout the College that need to be improved.</p>	<p>1.1 All corrective actions will be implemented no later than August 31, 2024. Those will include improvements in monitoring of various processes, improved documentation and frequency of self-inspections, updated evacuation routes, more frequent performance of fire drills, and other necessary improvements to address the specific observations listed above.</p>	<p>Partially Complete: Improvements have been made to clear issues identified by external inspection, enhance accident reporting, and test elevator call boxes. Still need to work on updating evacuation routes, improving inspection frequency at some campuses, fire drills. More testing of other issues will occur over the next 6 months.</p>		<p>8/31/24</p>

Report Name & No., Resp. Sr Mgr	Internal Audit Finding	Management's CAP(s)	Internal Audit Comments on Status	Management Comments on Status	Expect. Complete Date
Procurement Card Program Audit (24-018A), Chavira	1. While internal controls are well designed, some are not being consistently applied.	1.1 Enhance financial controls by implementing monthly reconciliation of procurement cards, improving cardholder training, establishing a timely card cancellation process, and monitoring spending patterns. Additionally, Procurement Services is developing a policy related to business meals, official functions and entertainment-like expenditures directly related to or associated with the active conduct of official TSTC business. Procurement card guidelines have already been updated and communicated to current cardholders.	Ongoing		10/31/24

Report Name & No., Resp. Sr Mgr	Internal Audit Finding	Management's CAP(s)	Internal Audit Comments on Status	Management Comments on Status	Expect. Complete Date
CRIMES Software Audit (24-019A), Becerra	1. We identified 13 of the 48 required TAC 202 controls managed by College personnel that either need to be implemented, or enhanced. Additionally, we were unable to test 15 of the 48 controls because the vendor failed to provide necessary information.	1.1 We will facilitate a meeting between the vendor and OIT personnel to help get a full understanding of those TAC 202 controls that could not be tested during the audit. If the answers are unsatisfactory, we will pursue another solution in which security can be fully verified. We will also request OIT take over the administration of the software, comparable to other software utilized by the college.	Ongoing		12/1/24

Internal Network Penetration Test - West Texas (24-029A), Weaver, McKee	1. There are opportunities to improve physical and IT security controls.	1.1 Each employee who submitted responses to the phishing emails will be required to take enhanced training. The campus will be reminded periodically of security risk.	Complete		Immediately
---	--	---	----------	--	-------------

Fleet Management Audit (24-025A), Sondermann	1. Some controls used to effectively manage the fleet are not operating.	1.1 Driver eligibility, accident process, GPS Tracking, and fuel monitoring will be enhanced.	Ongoing		1/31/25
	2. Vehicles labeled as educational are generally not subject to the same controls applied to fleet vehicles, even though some are being used like fleet vehicles.	2.1 Will partner with Property Management to identify the use of current educational vehicles, and explore ways to manage them.	Ongoing		11/1/24
		2.2 Work with Procurement to streamline a workflow for new vehicles.	Ongoing		1/31/25

Report Name & No., Resp. Sr Mgr	Internal Audit Finding	Management's CAP(s)	Internal Audit Comments on Status	Management Comments on Status	Expect. Complete Date
Texas Workforce Commission (25-002A), Makiya, Franke	1. The encryption of the server on which the confidential data is stored needs to be increased to a 256-bit standard as required by the TWC Contract. [NOTE: This was remediated before this report was issued.]	1.1 Encryption was increased to 256-bit standard before the audit was completed.	Complete		Immediately



TEXAS STATE TECHNICAL COLLEGE

Internal Audit Annual Report Fiscal Year 2024

Prepared by
Jason D. Mallory, Chief Auditor

Table of Contents

	Section
Compliance with TGC, Section §2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on the TSTC Website	I, page 3
Internal Audit Plan for FY 2024	II, pages 4-5
List of Consulting Engagements and Non-audit Services Completed in FY 2024	III, pages 6-7
External Audit Services Procured in FY 2024	IV, page 8
Internal Audit Plan for FY 2025	V, page 9
Reporting Suspected Fraud and Abuse	VI, page 10
External Quality Assurance Review	VIII, pages 11-13

I. Compliance with TGC, Section §2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on the TSTC Website

TGC, Section §2102.015 requires the College to post certain information on its website. Specifically, the College must post the current year audit plan within 30 days of approval by the Board of Regents, and the following information to its website:

- The annual audit report for the previous fiscal year.
- A detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report.
- A summary of the action taken by the College to address concerns raised by the audit plan or annual report.

To comply with the requirements, TSTC Internal Audit will submit its Internal Audit Annual Report to the College's website coordinators to be posted on the Internal Audit section of the College's website no later than 30 days after the TSTC Board of Regents approves the current year audit plan at its August meeting. This Annual Report includes the approved fiscal year 2025 audit plan. Furthermore, all Internal Audit reports are posted in the Board of Regents section of the TSTC website under the meeting agendas section. These are posted within 30 days after each meeting of the Board of Regents. These reports include detailed summaries of the weaknesses, deficiencies, wrongdoings, or other concerns found during each audit, if any, as well as summaries of the actions taken by the College to address those concerns. Information is available as far back as August 2015.

II. Internal Audit Plan for FY 2024

The Board of Regents approved the original internal audit plan for FY 2024 on August 10, 2023, with Minute Order #IA 02-23(c). There were no deviations from the internal audit plan.

Texas Government Code §2102.005(b) requires a state agency to consider methods for ensuring compliance with contract processes and controls and for monitoring agency contracts. To comply with this provision, an internal audit of contract compliance is conducted annually. In FY 2024, an audit related to a compliance audit of a construction contract currently in progress on the Waco campus was in progress at the time of this report was being created. That report, when issued, will be listed as Report #24-038A. Any material exceptions will be identified. Furthermore, cost recovery audits were outsourced under delegation #719-2023-002 for 8 construction projects with total costs over \$241 million. All audits were still in progress at August 31, 2024.

An audit of benefits proportionality was conducted in FY 2022 to address the benefits proportionality audit requirement prescribed in Rider 8, page III-50, of the General Appropriations Act of the 87th Legislature. Dated December 9, 2021, Report # 22-008A includes one finding in which \$67,984.46 in disallowed benefits were paid from appropriated funds. That amount was refunded to the Comptroller's Office on November 8, 2021. In FY 2023, another limited scope audit of benefits proportionality was performed due to a change in relied upon processes. Process were identified that needed minor improvements, but no overpayment by appropriated funds was found. That report is represented below as Report #23-019A. It was completed on August 14, 2023.

Fiscal Year 2024 Internal Audit Plan

Project Description	Division/Campus	Report Number	Report Date	Status
TEC §51.9337 (Contracting) Audit – satisfies annual audit requirement of contracts	Finance	24-038A	In Progress	In Progress
Internal/External Audit Quality Assessment Review	Internal Audit	24-004A	6/14/2024	Complete
Grant Audit - TWC Training for Demand Occupations Pilot Grant	Office of Sponsored Programs	24-008A	12/4/2023	Complete
Public Funds Investment Act Compliance Audit	Finance	24-005A	11/10/23	Complete
Procurement Card Audit	Procurement	24-018A	5/14/24	Complete

Internal Penetration Test – Marshall campus	OIT/Security	24-024A	6/6/2024	Complete
Internal Penetration Test – West Texas campuses	OIT/Security	24-029A	8/8/2024	Complete Note 1
PCI Compliance Audit	Finance/College-wide	24-002A	2/12/2024	Complete
TAC 202 Audit of CRIMES system	OIT	24-019A	5/23/2024	Complete
Student Grievance Process Audit	Retention Services	24-022A	6/27/2024	Complete
Fleet Management Audit	Campus Services	24-025A	In Progress	In Progress
Safety and Security Audit	Safety	24-007A	3/22/24	Complete
Accounting Controls (Foundation) Audit	Foundation	24-001A	9/6/2023	Complete
Quarterly Follow-up of TAC 202 Controls	OIT	24-009A	7/1/2024, 3/31/2024, 12/31/2024, 10/31/2024	Complete
Construction Project Audits (8 audits)	Construction	24-006A	In Progress	In Progress

Note 1: This report will be forward to agencies in November 2024 after it is presented to Board of Regents

Three FY 2023 audits were completed in the first quarter of FY 2024. Those were: Payroll and Benefits Proportionality Audit (23-019A), Facilities Maintenance Audit Harlingen Campus (23-021A), and Facilities Maintenance Audit Waco Campus (23-022A).

Reports for all completed audits listed above are posted in the Board of Regents section of the TSTC website under the meeting agendas section at <https://www.tstc.edu/about/board-of-regents>. Each report contains detailed summaries of the weaknesses, deficiencies, wrongdoings, or other concerns found during each audit, if any, as well as summaries of the actions taken by the College to address those concerns. Reports with Note 1 will be posted after they are presented to the Board of Regents in November 2024.

III. List of Consulting Engagements and Non-audit Services Completed in FY 2024

The following schedule summarizes projects, other than planned audits, that were completed or nearing completion.

Report #	Date	Project Description	Division /Campus	Summary of Observations and Recommendations	Status & Summary of CAPs
24-013I	1/09/2024	Reviewed misuse of a travel card.	Procurement	Identified personal purchases.	Complete: Employee was separated from employment.
24-027I	5/16/2024	Reviewed whether welfare assistance provided to a dual enrollment student required notification to State welfare services and police.	Student Retention/ Marshall	No compliance requirements were missed.	
24-026I	6/28/2024	Reviewed a concern of wasteful spending on travel, and non-compliance to internal procedures.	Human Resources	Identified questionable purchases and non-compliance	Complete: Enhanced review procedures were instituted, and employee was required to reimburse the College for one expense.
24-032I	7/19/2024	Reviewed complaint that Administrative Accounting Report omitted salary information.	Legislative Team	Did not identify any non-compliance because the expenses in question were not taxable fringe benefits.	
24-031I	7/22/2024	Reviewed anonymous complaint that an unnamed student	Instruction	No action could be taken because the alleged victim was unknown.	

		was being harassed.			
24-035P	7/26/2024	Assisted a manager with developing a self-audit checklist.	Testing	N/A	
24-033I	7/30/2024	Reviewed an allegation of financial aid fraud, records tampering, and other unrelated allegations.	Instruction	Did not find any merit to the allegations.	
24-023I	Pending Report	Reviewed errors identified on tax forms.	Payroll	An outside tax professional is currently reviewing the matter to formulate necessary action.	In progress

IV. External Audit Services Procured in FY 2024

One delegated request (#719-2023-001) was approved in FY 2023 for a series of cost recovery audits for construction projects. Additional delegation requests (#719-2023-002 & 719-2024-001) were approved in FY 2024 to extend the contract with the external auditor. The following schedule summarizes the audits that are in progress.

Auditor	Date of Report	Project Description
RL Townsend	Nearing completion	Cost recovery audit – being performed concurrently while a remodel project of the JBC building on the Waco campus is being performed.
RL Townsend	Nearing completion	Cost recovery audit – being performed concurrently while a campus annex is being built in Waco.
RL Townsend	In progress	Cost recovery audit - being performed concurrently while a building is being built on the Abilene campus.
RL Townsend	In progress	Cost recovery audit - being performed concurrently while a building is being built on the Waco campus.
RL Townsend	In progress	Cost recovery audit - being performed concurrently while a building is being built on the Marshall campus.
RL Townsend	In progress	Cost recovery audit - being performed concurrently while a building is being built on the Fort Bend campus.
RL Townsend	In progress	Cost recovery audit - being performed concurrently while a building is being built on the Harlingen campus.

V. Internal Audit Plan for FY 2025

The plan was developed through a collaborative effort between Internal Audit, Executive Management, Senior Management, and the Board of Regents. Multiple activities and functions throughout the College were assessed for financial, fraud, regulatory/compliance, and presence sensitive information. TAC 202 and technology risks were also considered in the planning. Management and the Board were also requested to provide a list of specific audits they wanted performed. All regulatory-required audits were included in the Audit Plan. Other than the areas actually selected for audit, consideration was given to risks associated with dual enrollment, student access and accommodation, dual enrollment, retention and enrollment services, and numerous software applications other than the ones selected for audit.

As is done every year, benefits proportionality was considered for an audit. It was not selected because it was audited in both FY 2022 and FY 2023, as well as numerous other times within the last 11 years. The TEC §51.9337 (Contracting) Audit is intended to satisfy the annual contracting audit requirement. Our planning process yielded the following audit plan for FY 2025:

Audit Name	Budgeted Hours
TEC §51.9337 (Contracting) Audit – satisfies annual audit requirement of contracts	200
SB 17 Compliance	200
Federal Financial	700
Student Discipline Process	600
Workforce Training	300
Hiring Process	300
Travel	640
Tuition	700
Course Syllabi	455
Internal Network Penetration Testing (3 campuses)	600
Workday TAC 202	555
Construction Project Audits (7-9 audits)	External Auditor
Clery Compliance	300
Quarterly Follow-up of TAC 202 Controls	200

The FY 2025 Audit Plan was approved by the Board of Regents on August 8, 2024, by Minute Order #IA 01-24(c).

VI. Reporting Suspected Fraud and Abuse

TSTC has taken the following actions to implement the fraud detection and reporting requirements of Section 7.09, page IX-40 of the 88th Legislature's General Appropriations Act, and Texas Government Code, Section 321.022:

- The College's website describes how to report suspected fraud, waste and abuse to the State Auditor's Office. A link to the State Auditor's Office fraud hotline is included, as is the hotline telephone number.
- A confidential *internal* fraud hotline is also available for people to report suspected fraud, waste and abuse. A link to that hotline is also included on the College's website. This hotline is administered by Internal Audit.
- Statewide Operating Standards GA 1.15, GA 1.16, and GA 1.17 have been adopted that detail responsibilities to prevent/detect fraud, how to report suspected fraud, and describe the College's other expectations in regard to fraud, waste, and abuse. Those Standards are available through the College's website.
- In compliance with the reporting requirements of fraud, waste, and abuse, the College reports all instances of confirmed fraud, waste, and abuse to the SAO.

VIII. External Quality Assurance Review

An External Quality Assurance Review of the Internal Audit Department was completed on June 14, 2024, by Amanda Wallace, CPA. Ms. Wallace is the Chief Audit Officer for Baylor University. She is entirely independent from all auditors employed by the TSTC Internal Audit Department.

The results of the review indicated that TSTC Internal Audit Department generally conforms to standards. The Department was also commended for its well-crafted audit charter, and the high level of confidence expressed by senior management and the Board of Regents. A copy of the original report is attached.



Baylor University

June 14, 2024

Mr. Jason D. Mallory, Director of Internal Audit
Texas State Technical College
3801 Campus Drive
Waco, Texas 76705

Dear Mr. Mallory,

We have completed an external quality assurance review on the Internal Audit Department of the Texas State Technical College (TSTC). In conducting our review, we followed the standards and guidelines contained in the Peer Review Manual published by the State Agency Internal Audit Forum.

The primary objective of the review was to provide an opinion on whether the internal auditing program achieves the basic requirements expected of internal auditing activities at all State of Texas institutions of higher education. Those requirements are set forth in the Texas Internal Auditing Act (Texas Government Code, Chapter 2102), the Institute of Internal Auditors' Code of Ethics and International Standards for the Professional Practice of Internal Auditing, and the U.S. Government Accountability Office's Generally Accepted Government Auditing Standards. For purposes of this review, we collectively refer to these as "the Standards".

Opinion Rating Definitions

The rating system used for expressing an opinion for this review is defined by the Standards, and provides for three levels of conformance: generally conforms, partially conforms, and does not conform.

- **Generally conforms** means that the Internal Audit Department has the relevant structures, policies, and procedures in place and an audit charter that complies with the Standards in all material respects; however, opportunities for improvement may exist.
- **Partially conforms** means the Internal Audit Department is making good-faith efforts to comply with the Standards but falls short of achieving some major objectives. This will usually represent that significant opportunities for improvement are needed in effectively applying the Standards.
- **Does not conform** means the internal audit activity is failing to achieve many or all of the Standards' objectives. These deficiencies will usually have a significant impact on the internal audit activity's effectiveness and its potential to add value to the organization.

Results and Opinion

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the TSTC Internal Audit Department receives a rating of *Generally Conforms*.

Key Strengths

As required by the Standards, TSTC has a well-crafted audit charter that clearly defines the audit function’s purpose, authority, and responsibility. The Director and audit staff have unrestricted access to all TSTC personnel, records, and property. Additionally, interviews with senior leaders and members of the board revealed a high degree of confidence in the audit function, with many complimenting the professionalism, thoroughness, and transparency of the audit team.

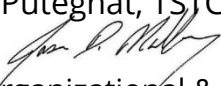
We would like to thank the TSTC Internal Audit staff as well as other TSTC representatives for their assistance during the review.

Sincerely,



Amanda R. Wallace, CPA
Chief Audit Officer
Baylor University



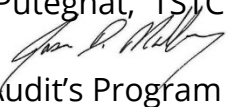
To: Regent Lizzy de la Garza Putegnat, TSTC Audit Committee Chairwoman
From: Jason D. Mallory, VC/CAE 
Subject: Annual Confirmation of Organizational & Individual Independence
Date: November 7, 2024

The Institute of Internal Auditors' *Professional Practices Framework* requires that I confirm annually to you that the Internal Audit Department and its staff are organizationally independent within TSTC to assure you that audit reports and other opinions I offer you are free of interference from management.

I attest that the Internal Audit Department has a reporting structure which promotes organizational independence. The current structure requiring me to report functionally to the Chair of the Audit Committee, but administratively to the Chancellor, achieves the requirements of the *Professional Practices Framework*. I do not feel any barriers exist which impede or discourage my direct communication and interaction with you. Also, there has not been any instance in which management has attempted to limit the scope of the internal audit role, interfere with work necessary to offer opinions, or unduly influence communications that you receive.

And while not specifically required to be confirmed, I also attest, to the best of my knowledge and belief, that my staff and I are free from any personal impairments which might create a conflict of interest. Everyone is expected to maintain independence of mental attitude in the conduct of all assigned work, to be objective, fair, and impartial, and to conduct themselves professionally at all times. To limit and identify personal impairments, Internal Audit Department employees cannot have any operational responsibilities outside of the Internal Audit Department. They must also annually acknowledge their responsibilities in writing, and report any situation they feel might jeopardize their objectivity. Finally, procedures are in place to resolve a situation where objectivity may be compromised, or if a perception of a compromise exists.



To: Regent Lizzy de la Garza Putegnat, TSTC Audit Committee Chairwoman
From: Jason D. Mallory, VC/CAE 
Subject: Information on Internal Audit's Program of Quality Control
Date: November 7, 2024

The Institute of Internal Auditors' *Professional Practices Framework* requires I provide you information annually on our quality control program for internal auditing. We have established a program that ensures independence, competency, and compliance to auditing standards. That program includes the following:

- Required annual continuing education for each staff member: In FY 2024, all staff obtained at least 40 hours of professionally relevant continuing education.
- Professional certification(s) and Education: Departmental staff hold undergraduate degrees in Accounting, Management, Finance, and Cybersecurity. Two staff also hold MBAs. Professionally recognized licenses and certifications held include 1 CPA, 2 Certified Internal Auditors, and a certification in control self-assessment. Additionally, recognition as a Certified Information System Auditors is also being pursued.
- Internal and external quality assessment reviews: An external review was performed in FY 2024 that resulted in a "Generally Conforms to Standards" opinion. The external review was performed by Amanda Wallace, CPA. She is the Chief Audit Executive for Baylor University.
- Reliable and sufficient documentation for all audit reports and opinions: I supervised all FY 2024 audits, and conducted working paper reviews before any reports or opinions were issued.
- Policy and procedures manual: All auditors are in possession of the manual, and acknowledged their responsibilities in writing prior to the fiscal year. That manual was reviewed and updated throughout the year as procedural changes were enhanced, with staff being promptly informed. We have a designated staff member that periodically reviews all internal policies governing our work practices. A review of updated standards will be performed in FY 2025, with possible changes to the manual being made.

- Independence statements. In FY 2024, all auditors acknowledged their independence in writing. Formal procedures are established to address any potential conflicts of interest that may arise.
- Membership in professional organizations. The Department is a member of the *Institute of Internal Auditors (IIA)*, the *Association of College and University Auditors (ACUA)*, the *Texas Association of College and University Auditors (TACUA)*, and the *Information Systems and Controls Association (ISACA)*.
- Client surveys. In FY 2024, client opinions of our work were sought after each audit. All responses were generally good to exceptional.



Internal Audit Department

Audit Report

Internal Network Penetration Test (24-029A) **West Texas Campuses**

August 9, 2024

**This audit was conducted in accordance with the
International Standards for the Professional Practice of Internal Auditing
Of the Institute of Internal Auditors.**

Executive Summary

Between June 5, 2024 and June 28, 2024, we performed vulnerability scans and penetration testing on the West Texas campuses. This test was primarily directed at identifying internal network vulnerabilities, but we also tested physical security of buildings. Some level of testing was performed at every campus, but we only visited the Sweetwater campus, and the facilities in Abilene.

The primary objective of this project was to ensure the physical and logical security of information technology assets directly supporting the confidentiality, integrity, and accessibility of College information. This test attempted to detect vulnerabilities to help prevent attacks from unauthorized or inappropriate activity on the West Texas campuses. We tested various security controls and procedures, to include the segregation of the Colleges internal and guest Wi-Fi networks. Our tests included scanning networks to identify open ports that should be restricted, identifying default user credentials being used on network devices, social engineering a sample of employees to identify cybersecurity awareness and practices, and attempting to gain unauthorized access to buildings and rooms where sensitive information may be stored. We also attempted to access employee computers when they were not present, and pulled on doors after business hours. We conducted a similar test on this campus in fiscal year 2021.

We determined that campus employees generally secure access to sensitive information by locking their offices and/or computers when not in use, and by not disposing of sensitive documents in publicly accessible trash cans. We found employee and guest wireless networks are segregated, and protected by secure logon protocols and encryption. Access to those networks is also restricted to the inside of buildings. IT-related closets and rooms are restricted by locks that require both a physical key and pin code. Employees are trained on cybersecurity risks. Finally, buildings are locked after business hours.

We were able to social engineer 6 employees through phishing emails which could have compromised their Workday credentials in a real attack. While multi-factor authentication is in place which would have probably prevented any actual unauthorized access, these employees were notified immediately of their actions. We also identified 10 active ports on the internal employee network that were open, and 1 device on the internal employee network using default administrator login credentials. The open ports and device found to have default administrator credentials were immediately remediated by OIT during the course of our audit. Finally, we identified 4 opportunities to better restrict physical access that would improve general security on the Sweetwater and Abilene East Campuses.

Introduction

The Office of Information Technology (OIT) Division assists the College with its IT needs by maintaining secure IT networks, providing end-user support and training, assisting with IT purchases, and maintaining critical databases and offering critical application support. OIT has 1 Field Support Technician dedicated to each of the West Texas Campuses. (Abilene, Brownwood,

Breckinridge, and Sweetwater). IT security personnel located on other campuses provide remote support to these campuses.

All campus employees have a role in ensuring assets and data are protected. They are expected to lock doors and computers when not in use, being aware of cybersecurity attacks through periodic training, and maintaining a general awareness of suspicious activity and risks. The West Texas campuses are overseen by a Provost, with Associated Provosts assisting on each campus.

Objectives

The objectives of the internal network penetration test were to:

- ensure primary systems, and systems directly supporting the confidentiality, integrity, and accessibility of primary systems have the appropriate security controls in place to detect and prevent attacks.
- ensure unauthorized individuals on the campuses are reasonably prevented from accessing privileged systems or sensitive data.
- assess internal employee guest networks are segregated.
- identify the usage of default logon credentials on network devices.
- verify training on cybersecurity risks are being completed periodically.
- identify real-world attack vectors that are present.

This test was not intended to verify all risks the campuses and IT may face during an attack.

Scope & Methodology

The scope of the penetration test included the physical and logical securities of core network equipment, access network equipment, and networking closets located on the campus. It also included campus employee behavior, especially their awareness of, and vigilance against, potential attacks that compromise IT systems and other sensitive data. The following industry standards served as our methodology:

- IS Benchmarks - Baseline Configurations for Secure Operating System and Application Deployment
- NIST 800-128 – Guide for Security Focused Configuration Management of Information Systems
- NIST 800-53r5 - Security and Privacy Controls for Federal Information Systems and Organizations
- NIST 800-115 - Technical Guide to Information Security Testing and Assessment

To accomplish our objectives, we sent emails requesting Workday login credentials to 87 employees who have access to sensitive information. We scanned network services, attempted to access areas that should be restricted, tested open ports and reviewed available training documentation. We limited our physical observations and tests to only the Sweetwater and Abilene campuses.

General Observations

We found the campuses to be well secured. Staff on campus were more alert to our presence than in our previous test in 2021. Employees secured their computers and offices when they were away from them. Most of our phishing attempts failed, and several people reported our emails to OIT as suspicious. There were no repeater “offenders” from 2021 to our social engineering tests, indicating training and awareness have improved. Wireless networks are segregated and the usable range is only within each building. Rooms where network transmission equipment are located are only accessible to people with a key and pin code.

The Office of Information Technology and Provost immediately responded to remediate findings during the audit. Finally, we recognized an increased number of personnel have attended the additional *Cybersecurity and You* training offered by the OIT.

Summary of Finding

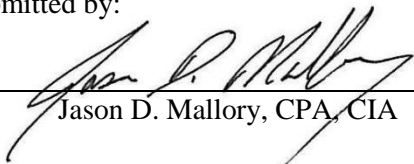
There are opportunities to improve physical and IT security controls.

Opinion

Based on the audit work performed, IT assets and information are generally well protected on the West Texas campuses, but some controls should be improved.

We would like to extend our appreciation for the time and assistance given by management and employees during this audit.

Submitted by:



Jason D. Mallory, CPA, CIA

August 9, 2024

Date

AUDIT FINDING DETAIL

Finding #1: There are opportunities to improve physical and IT security controls.

Criterion: We sent emails to 87 employees on the West Texas campuses in an attempt to social engineer their logon credentials to the College's main database. We reviewed the training records of these same employees to ensure they completed required cyber security training. We searched for vulnerabilities and devices with default administrator credentials by scanning open ports. Finally, we attempted to access campus buildings and rooms after business hours or at times when employees were not present. We identified the following that need improvement:

- Six employees responded to our social engineering email by presumably providing their logon credentials to Workday.
- We identified 10 open ports on the internal network that we could have attempted to exploit to gain unauthorized access to College data.
- We identified 1 device on the employee internal network using default administrator credentials. Again, we could have attempted to exploit this device to gain unauthorized access to data or simply been disruptive.
- We found 1 building unlocked during and after business hours on the Sweetwater campus, and boxes of old records unsecured in physical plant that need to be destroyed or better secured. We also identified 2 unlocked storage areas at the Abilene East Campus Aviation building housing an electrical panel box and an industrial air compressor.

Consequences: Increased risk of inappropriate access to sensitive data or assets.

Possible Solutions: We recommend the employees be reminded of their responsibilities to protect access to systems, and the methods used by bad actors to gain such access. We also recommend all buildings be locked after business hours, files containing potential sensitive information should be locked or destroyed upon retention policies for documents. Finally, we recommend all open ports be secured, and all default logon credentials to devices on the network be changed.

Management Response

The Office of the Provost in West Texas (including Abilene, Brownwood, Breckenridge, and Sweetwater) concurs with the audit's observations and recommendations regarding the necessity to enhance employee education on safeguarding information and resources. The audit identified six employees who were potentially compromised through social engineering tactics. Each of these employees have been registered to take the Cybersecurity and You training on August 9, 2024, and have since been provided with coaching and information to mitigate future risks.

The majority of employees demonstrated appropriate responses during the audit. To reinforce the importance of vigilance against unauthorized network access, we will incorporate reminders in our campus meetings. Furthermore, the Provost's Office will support the Office of Information

Technology (OIT) in mitigating additional risks and will intensify efforts to restrict physical access to our facilities. We will also maintain and reinforce expectations for securing computers and locking office doors when away from workstations.



Internal Audit Department

Audit Report

**Audit of Compliance to Senate Bill 17 of the 88th
Legislature (25-001A)**

August 19, 2024

**This audit was conducted in accordance with the
International Standards for the Professional Practice of Internal Auditing
Of the Institute of Internal Auditors.**

Executive Summary

We recently completed a compliance audit of Senate Bill 17 (SB 17), “Responsibility of Governing Boards Regarding Diversity, Equity and Inclusion Initiatives”. SB 17, passed by the 88th Texas State Legislature, amended TEC §51.3525 to prohibit diversity, equity, and inclusion (DEI) activities at State supported institutions of higher education.

The objectives of the audit were to verify:

- that a DEI office does not exist within TSTC to influence the hiring or employment practices with respect to race, sex, color, gender identity, sexual orientation or ethnicity. Only the use of color-blind and sex-neutral hiring that follow applicable state and federal rules and regulations are permitted;
- the duties of a DEI office are not being performed by an employee or a contracted third party outside of an official office;
- DEI statements are not compelled, required, induced or solicited from any person to gain preferential treatment;
- preferential treatment has not been given with respect to race, sex, color, gender identity, sexual orientation or ethnicity;
- mandatory DEI training has not been performed; and
- College policies do not exist that promote DEI, but a disciplinary policy is in place for individuals who engage in prohibited activities.

We determined that the College has never maintained a DEI office, and found no evidence the objectives of such an office are being informally achieved by an employee or a third party outside of an official office. Compulsory DEI statements and trainings have not taken place, and we did not identify any preferential treatment of employees or students based on their race, sex, color, gender identity, sexual orientation or ethnicity. College policies do not authorize the practice, and a disciplinary policy is in place that can be applied to individuals who engage in prohibited DEI practices and activities. Finally, while no appropriated money for fiscal year 2025 had been spent at the time of this audit, the Board of Regents certified compliance to SB 17 on May 9, 2024. That certification will be submitted to the Texas Higher Education Coordinating Board and Texas Legislature before August 31, 2024.

Introduction

In June 2023, Governor Greg Abbott signed SB 17, “Responsibility of Governing Boards Regarding Diversity, Equity, and Inclusion Initiatives” into law, effective January 1, 2024. SB 17 requires the Board of Regents to certify before appropriated funds are spent that SB 17 requirements have been adopted. Specifically, the certification asserts the College does not maintain a DEI office, nor has it hired individuals to perform the duties of a DEI office. Preferential treatment is not given to individuals who provide a DEI statement, nor to individuals based on their race, sex, color, gender identity, sexual orientation, or ethnicity. And, there are no compulsory DEI trainings being conducted. Finally, disciplinary policies are in place that can be

applied to individuals engaging in prohibited conduct, but policies do not authorize any DEI activity.

Currently, the Office of General Counsel leads all compliance efforts.

Objectives

The primary purpose of this audit was to verify compliance to TEC §51.3525 as amended by SB 17 adopted by the 88th Legislature.

Scope & Methodology

The scope of our audit included current College policies, hiring practices, training materials and the College’s organizational structure as of July 31, 2024. Our methodology was based on the new requirements stated in TEC §51.3525. Specifically, we reviewed College policies and the organizational structure to identify socially motivated messages and departments. We reviewed training material, with a specific focus on *required* training. We scrutinized recent job postings, and reviewed the rationale for recent hires and promotions to ensure DEI were not considerations.

General Observations

The College has posted a statement on the Human Resources website stating “TSTC shall maintain an environment that promotes learning, academic freedom, and the creation and transmission of knowledge free from any requirements to exhibit or reflect a specific ideology or political view and without providing advantages or disadvantages to individuals based on race, sex, color, ethnicity, or national origin.” In addition, language prohibiting DEI was also added to SOS HR 2.1.14 Equal Opportunity in Employment and SOS ES 4.07 Admissions of Students. Management has also affirmed diversity quotas are not in place.

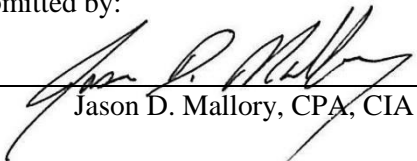
Summary of Findings

No compliance exceptions were identified.

Opinion

Based on the audit work performed, the College has complied with TEC §51.3525 as amended by Senate Bill 17 adopted by the 88th Legislature. No DEI related departments or practices exist at TSTC, currently nor in the past. We would like to extend our appreciation for the time and assistance given by management and employees during this audit.

Submitted by:



 Jason D. Mallory, CPA, CIA

August 19, 2024

 Date



Internal Audit Department

Audit Report

Audit of the Texas Workforce Commission Contract (25-002A)

September 12, 2024

**This audit was conducted in accordance with the
International Standards for the Professional Practice of Internal Auditing
Of the Institute of Internal Auditors.**

Executive Summary

We completed an audit of contract # 2923PEF03 with the Texas Workforce Commission (TWC Contract) which grants limited access to their confidential data that assists the College with assessing the wages and placement rates of its former students. The TWC Contract requires a bi-annual audit of required safeguards of the data, along with quarterly self-assessments to be submitted by management. This audit was intended to satisfy the bi-annual audit requirement.

The primary objective of this audit was to verify the 24 safeguards required by Attachment B (Safeguards for TWC Information) of the TWC Contract were in place. We also validated information submitted by management in their quarterly self-assessment report required by Attachment G (Quarterly Self-Assessment Reports). The information in the self-assessment reports include the requirements of Attachment B. Finally, we mapped the requirements in Attachment B to TAC 202 controls. In this audit, 28 TAC 202 controls were tested. Our work included we testing access, audit logs, data storage and security, use of data, training and expectations, and data disposal. We also tested monitoring controls, records retention and release of information, background checks, and media protection.

With the exception of one requirement, we determined that all Attachment B requirements were met. We also verified that the quarterly self-assessment reports submitted by management to attest to compliance to Attachment B were also accurate.

The only deviation we noted related to the encryption being used on the server where the downloaded data is stored. While the data is secured, and is encrypted, the encryption needed to be increased to a 256-bit standard. This is cited in Finding #1. **[NOTE: 256-bit encryption was implemented just prior to the date of this report.]**

Introduction

In September 2017, the College entered into a contract with the Texas Workforce Commission to obtain offline access to their system to review wage and select employment data for former students of TSTC. This data helps to make decisions which affect the College's appropriated funding, and in making instructional program decisions. The contract was renewed in September 2022, with an expiration of August 2027. The cost of access to the data for the most recent contract is \$25,000.

The TWC Contract places stringent limitations on allowable use, defines penalties for failing to protect the data, and clearly defines requirements related to security, access, and several other controls.

Only one employee in the Data and Analytics Department has the ability to download data and view it on College's virtual server. That server is dedicated to only this data. Two administrators in the Office of Information Technology (OIT) maintain that server, but are not authorized to access the data.

Objectives

The primary objective was to verify all requirements listed in Attachment B (Safeguards for TWC Information) are in place. We also validated the information submitted by management in their quarterly self-assessment report required by Attachment G (Quarterly Self-Assessment Reports).

Scope & Methodology

The scope of our audit included all processes and controls in place as of August 31, 2024, that ensure compliance with Attachments B and G of the TWC Contract executed in September 2022. To accomplish our objectives, we reviewed access to the data, change control procedures, audit logs, data encryption, and other security types of controls. Interviews, inspections of key documentation, and reviews of the manner in which data was used were also part of our testing.

General Observations

Access is restricted to one person. Agreement forms and training are in place to ensure staff are aware of the expectations related to the data. Access to the server where the data is stored is secured and restricted. Staff perform a self-audit each quarter to support their quarterly attestation. Their attention to the requirements during this self-audit has ensured the data remains secured. OIT is facilitating both penetration testing and vulnerability scans on a routine basis. Audit logs are managed with the newly implemented SIEM solution. Staff in the Data and Analytics Department and OIT are very familiar with the strict contractual requirements, and the need for confidentiality and security of the data. All employees were responsive and helpful during the audit.

Summary of Finding

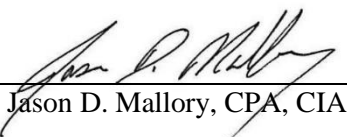
The encryption of the server on which the confidential data is stored needs to be increased to a 256-bit standard as required by the TWC Contract. **[NOTE: This was remediated before this report was issued.]**

Opinion

Based on the audit work performed, all contractual requirements were met. While encryption need attention, it was immediately corrected the audit concluded.

We would like to extend our appreciation for the time and assistance given by management and employees during this audit.

Submitted by:


 Jason D. Mallory, CPA, CIA

September 12, 2024

Date

AUDIT FINDING DETAIL

Finding #1: The encryption of the server on which the confidential data is stored needs to be increased to a 256-bit standard as required by the TWC Contract. **[NOTE: This was remediated before this report was issued.]**

Criterion: The TWC Contract requires all data stored by the College be encrypted using the 256-bit standard.

We determined that the server where the data is stored historically used 128-bit encryption. 256-bit encryption was implemented immediately after we notified OIT of the requirement.

Consequences: Technical non-compliance to the executed contract.

Possible Solutions: Corrected during the audit.

Management Response

Internal Audit Comment: The exception was resolved during the audit. A management response was not required.



Internal Audit Department

Audit Report

Annual Contract Audit (24-038A)

September 19, 2024

**This audit was conducted in accordance with the
International Standards for the Professional Practice of Internal Auditing
of the Institute of Internal Auditors.**

Executive Summary.

We recently completed a contract compliance audit of a contract (Contract) executed on 7/21/23 with Rogers-O'Brien Construction, currently valued at \$59,655,264. The primary purpose of this audit was to verify compliance to the requirements of TEC §51.9337 added by SB 20 of the 84th Legislature, as well as compliance to the processes and requirements stated in the College's Contract Management Handbook (Handbook). This Contract is also being reviewed by RL Townsend, a construction cost control auditor to ensure all amounts paid by TSTC were allowable under the contract. Results of this review will be issued in a separate audit report at a future date.

We verified that authorized persons within the College executed the contract, and that competitive and fair selection processes were utilized. We also verified other requirements were met, which include evidence that no conflict existed between the persons executing the contract and the vendor, appropriate training of these people, regulatory reporting was met, and other necessary procedural type steps were taken.

We found that the contract complied with the rules stated in TEC §51.9337 and the Handbook. The contract and subsequent amendments were approved by the appropriate level of authority, a contract checklist was completed, competitive bid processes were properly performed, required compliance forms were timely completed, and the people engaged in the contracting process were trained.

Introduction

In November 2021, the Board of Regents approved the concept to construct multiple capital construction assistance projects on multiple TSTC campuses. This included construction of a 129,120 gross square feet new building in Waco. The new building will include educational programs for the Electrical Support Group, Building Construction Technology, Electrical Construction and Solar, Plumbing, HVAC, Industrial Systems, and Robotics. A Construction Manager at Risk contract was executed in July 2023. Construction is underway, with completion tentatively scheduled for September 2025.

TEC §51.9337 requires that a contract review checklist be reviewed and approved by legal counsel, policies governing contracting authority be approved by the Board, and an annual assessment by the chief internal auditor be performed to determine whether the institution has adopted the rules and policies required by this section. Additionally, Statewide Operating Standard (SOS) FA 1.16 Purchasing Authority and FA 4.4 Contract Administration outlines the purchasing and contract requirements, referencing SB20 requirements and other required processes in the Handbook. The Handbook includes ethical standards and policies, contract formation and administration.

The Office of Contract Administration (OCA) maintains the depository of all contracts, and assists with procuring contracted services. They are instrumental in ensuring all compliance aspects of contracts are achieved. OCA continues to utilize Rsolution, a contract management software that controls the workflow of solicitations of contracts, and acts as a central repository for related

contract documents. The OCA includes a Senior Manager, three Contract Managers, a Project Manager, and is overseen by the VP of Procurement.

Objectives

The primary purpose of this audit was to verify compliance to TEC §51.9337, internal policy, the Handbook, and the contract review checklist for the Imperial Construction, Inc. contract.

Scope & Methodology

The scope of our audit included the Rogers-O’Brien Construction contract executed on July 21, 2023. Our methodology consisted of verifying requirements stated in TEC §51.9337, SOS FA 1.16 Purchasing Authority and FA 4.4 Contract Administration were met in the execution and performance of these contracts. Training and conflict of interest disclosures of persons involved in these contracts were also tested. The Handbook and contracting review checklist were included in our testing as were other documents specified in the guidance that we used as a basis for the audit. To accomplish our objectives, we reviewed the contract, and verified the appropriate documents, approvals, and training were in place.

General Observations

The Office of Contract Administration continues to utilize Rsolution which acts as a repository of all contracts, and related documentation. All documents related to the solicitation event, contract, and any amendments are maintained within the application. Rsolution also documents the process of bid evaluation, internal notes, supplier responses, and award notifications. Personnel are very diligent to ensure all compliance requirements are met.

Summary of Findings

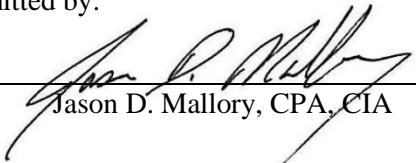
No material compliance exceptions were identified.

Opinion

Based on the audit work performed, the contract related to the construction of the new CMAR CCAP Building in Waco and supporting procedures complied with TEC §51.9337 and the Contracting Handbook.

We would like to extend our appreciation for the time and assistance given by management and employees during this audit.

Submitted by:



Jason D. Mallory, CPA, CIA

September 19, 2024

Date



Internal Audit Department

Audit Report

Fleet Management Audit (24-025A)

September 26, 2024

**This audit was conducted in accordance with the
International Standards for the Professional Practice of Internal Auditing
of the Institute of Internal Auditors.**

Executive Summary.

We recently completed an audit of the College's fleet to verify controls are appropriately designed and operating as intended to achieve the following objectives:

- State required reporting is timely and accurate;
- only eligible employees who have been trained are allowed to drive College owned vehicles;
- vehicle maintenance and registrations are current;
- use is restricted to legitimate College business;
- accidents are reasonably limited, and properly handled when they occur;
- access to vehicles is restricted;
- adequate insurance coverage is in place; and,
- fuel purchased for fleet use is appropriate.

The scope of the audit encompassed all cars, trucks, SUVs and vans used in the fleet, as well as all trips taken in those vehicles in fiscal year 2024.

During our audit, we documented the current size of the fleet inventory, to include owned versus leased vehicles. We also attempted to identify the total miles driven in fiscal year 2024. Required reports, mileage logs, vehicle maintenance records and insurance coverage were reviewed. A sample of vehicles were physically inspected to ensure maintenance and registration were current, and that standardized binders for drivers were present in each vehicle. The processes related to training, verifying driving records, paying for fuel, and managing access to vehicles were also tested. Finally, we reviewed vehicle accidents to ensure a process is in place to reasonably limit liability, and to understand their frequency and causes.

We found that reporting to the State is accurate and timely. Training expectations are being met, and there is a process for vetting drivers prior to authorizing them to use vehicles. Accidents are rare, with the ones that have occurred in the last 3 years being best classified as minor. There are also established processes for handling them when they occur. Insurance coverage is adequate. And, registration and maintenance are generally up to date.

We determined that many of the controls that are in place are manual in nature. As a result, we noted some of them were applied inconsistently, and found opportunities to reduce risks by enhancing the design of other controls. These issues are discussed in detail in Finding #1.

We also identified a need to identify the actual use of vehicles classified as "educational" to ensure they are not being used in a similar manner as fleet vehicles. This is discussed in detail in Finding #2.

Introduction

There are currently 211 leased or owned fleet vehicles distributed throughout the State. The fleet is divided into two categories: vehicles assigned to a specific department, such as the police, and vehicles assigned to a motor pool. Motor pool vehicles are available for use by any eligible driver, whereas departmental ones are generally used by employees in a specific department. Most departmental vehicles are located within the police department and physical plant. Motor pool vehicles make up about 32% of the fleet, while the departmental vehicles account for the rest. Approximately 70% of the fleet is leased. The distribution of the fleet by campus is as follows:

Campus	# of Vehicles	Campus	# of Vehicles	Campus	# of Vehicles
Waco	82	Harlingen	46	Sweetwater	15
Abilene	14	Brownwood	6	Breckenridge	4
Central Admin.	8	Fort Bend	10	EWCHEC	10
Marshall	9	New Braunfels	1	North Texas	6

All vehicles considered part of the fleet are subject to the controls and objectives tested in this audit.

There are other vehicles not considered part of the fleet that are used in the direct education of students. Known as educational vehicles, these vehicles were originally purchased to be used in labs and other student-related training. These are not included in the fleet total, and are generally managed outside of the controls applied to the fleet. There are 173 of these vehicles. This audit generally excluded vehicles classified for educational purposes.

In fiscal year 2024, \$1.2 million was expended on the fleet for fuel, lease costs, and maintenance. This excludes the costs of insurance, personnel to manage the fleet, and depreciation of owned vehicles. We estimated that total miles driven by the fleet in fiscal year 2024 was 1.1 million miles.

A Statewide Fleet Manager who reports directly to the Chief Campus Service Officer oversees the fleet. 3 fleet coordinators report to her. They manage day-to-day operations, such as checking out/in vehicles to drivers, and ensuring maintenance is performed. Employees at some of the other campuses perform similar duties as the fleet coordinators as additional duties.

Objectives

The objectives of the audit were to determine whether:

- State required reporting is timely and accurate;
- only eligible employees who have been trained are allowed to drive College owned vehicles;
- vehicle maintenance and registrations are current;
- use is restricted to legitimate College business;

- accidents are reasonably limited, and properly handled when they occur;
- access to vehicles is restricted;
- adequate insurance coverage is in place; and,
- fuel purchased for fleet use is appropriate.

Scope & Methodology

The scope of our audit included all fleet vehicles, and their associated records and use in fiscal year 2024. Information back to 2021 was utilized in certain tests. Texas Government Code, Chapter 2171, SOS GA 1.6.6 Driver Safety, and the actual flow of the processes relied upon by management to manage the fleet served as the basis for our testing. We accomplished our audit objectives by reviewing related records and reports, performing physical inspections, calculating values, interviewing employees, and reconciling expenses to receipts and logs.

General Observations

The Fleet Management Department is relatively new. Prior to its establishment, fleet management was generally decentralized at each campus and department. The current team is in the process of standardizing processes and controls, and taking steps to update fleet management using available technology. They concur that the manual controls currently relied upon are antiquated, and not as effective as they can otherwise be. They are in the early stages of implementing an automated system to collect data that gives insight into miles driven, real-time maintenance needs, fuel purchases, and the actual use of the fleet. Other than to improve day to day controls, these improvements have the potential to also better inform management when deciding the optimal size of the fleet.

Summary of Findings

1. Some controls used to effectively manage the fleet are not operating.
2. Vehicles labeled as educational are generally not subject to the same controls applied to fleet vehicles, even though some are used in similar ways.

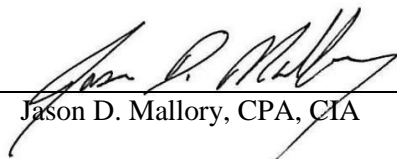
Opinion

Based on the audit work performed, we found the creation of a Fleet Services Department dedicated to overseeing the fleet was a significant step in controlling risks related to having a fleet the size of the College's. Many legacy processes are under consideration for enhancement to better minimize risks.

We identified several key controls to fleet risks rely on manual processes susceptible to error and omission. Changes planned by Fleet Services will reduce risks. Findings #1 and #2 detail our observations and recommendations we feel will improve overall fleet management. Management concurred with these observations, with action being discussed and/or in process for some before this audit commenced.

We would like to extend our appreciation for the time and assistance given by employees and management during this audit.

Submitted by:



Jason D. Mallory, CPA, CIA

September 26, 2024

Date

AUDIT FINDING DETAIL

Finding #1: Some controls used to effectively manage the fleet are not operating.

Criterion: We reviewed processes for managing fleet vehicles to include ensuring only eligible drivers have access to vehicles, vehicles are properly maintained, accidents are managed according to College policy, monthly mileage logs are completed, fuel purchases are reasonable, and vehicle use is appropriate.

We found many of the processes to manual in nature, and rely on drivers to provide accurate and complete information. This has led to erroneous or incomplete information that is relied upon to effectively manage the fleet. The following issues should be addressed:

Driver Eligibility

Annually, the driver eligibility is verified by Human Resources. The results are uploaded into Workday which a vehicle reservation system that is used to reserve motor pool vehicles. When a reservation is made, driver eligibility is automatically verified through that reservation system.

We found two issues. First, we identified 7 employees who drove in fiscal year 2024 who did not have their eligibility verified within the last year. Secondly, we also determined that departmental vehicles are not reserved through this reservation system. As a result, driver eligibility is not performed for drivers of those vehicles. This could be a significant control gap because 143 of the 211 fleet vehicles are classified as departmental.

Maintenance

There are not centralized maintenance records for the fleet. Maintenance relies on personnel outside of the Fleet Management Department to elevate service needs. This is particularly true for vehicles assigned to departments.

While our inspections of a sample of motor pool and departmental vehicles revealed most were up to date on routine maintenance, we identified 5 vehicles that were past due for an oil change.

Accidents

We identified only 27 reported vehicle accidents between September 2021 and August 2024. This suggests drivers are generally safe and cautious, and accidents are not a frequent occurrence. None of the accidents resulted in injuries that we could find.

Policy requires a report to be completed for each accident, with follow-up training being required. We did not see any of the accidents had this report completed, and none of the drivers were required to attend additional training. We suspect these lapses may be due to the accidents being minor. For one employee who was involved in 3 accidents in a short period of time, her employment was terminated.

Also, policy reserves the right of the College to require alcohol/drug tests for employees who are involved in accidents. Actual practice, though, indicates tests are never performed.

Legitimate Use

Written mileage logs required to be completed by each driver are relied upon to document use.

We determined these logs are not being consistently completed, or are not submitted to the Fleet Management Department. For logs that are submitted, no one is scrutinizing them to identify suspicious use.

In one of our tests, we searched for vehicle misuse by scrutinizing the logs. We identified 4 instances in which logs contained mileage or other information that raised red flags due to the number of miles documented in the period of time the vehicle was driven. Coincidentally, during this audit we validated a report of vehicle misuse of a departmental vehicle. There was a log in that case that was submitted to Fleet Management that clearly noted unusual use, but it was not immediately flagged.

Additionally, we determined there is not a readily available method to calculate the total mileage being put on individual vehicles or the fleet as a whole at any given time. It could be manually calculated from the 211+ logs that are to be submitted each month, but this is not happening, and would be very inefficient, anyway. Mileage data could assist in making fleet related decisions.

Fuel

Fuel cards are stored in the binders maintained in each vehicle. Every driver has an assigned PIN for the cards, so the person who purchases fuel is easily identifiable. All fuel receipts are required to be submitted along with the mileage logs each month. A consolidated bill for fuel purchases is paid every month.

We identified multiple fuel purchases listed on the monthly statement that were not supported by receipts nor documented on mileage logs. We could not determine whether the purchases were fraudulent. This is possible because there is also not a reconciliation between the fuel bill and submitted receipts/mileage logs before the fuel bill is paid.

Consequences: Increased potential for unidentified misuse, fraudulent fuel purchases, missed maintenance, and unauthorized drivers. Additionally, lack of data hinders well-informed decision.

Possible Solutions: We recommend:

- driver eligibility be verified every time fleet vehicle is used. This includes having drivers of departmental vehicles reserve vehicles in a similar way to the motor pool vehicles;
- a process for maintaining centralized maintenance records be implemented to help identify the need and occurrence of maintenance on all fleet vehicles;

- all policy-required procedures be implemented when accidents occur, and consider compulsory testing for alcohol/drug use after every accident to identify whether that was a contributor;
- a GPS tracking system be installed in all fleet vehicles, with some sort of periodic and documented review of vehicle use. This system could also help with identifying actual mileage on individual vehicles and the fleet as a whole;
- a reconciliation of fuel receipts to the monthly bill prior to the bill being paid. Also, a comparison of fuel purchases to actual mileage to determine reasonableness; and,
- continuing with the implementation of Telematics. This should assist with GPS tracking, fuel use, and addressing the other observations and recommendations. It also would help automate more of the controls.

Management Response

The Fleet Services Department agrees with the observations. To address the finding the following actions will be taken:

Eligible Driver Verification – Fleet Services will collaborate with the Vice Chancellor & Chief Campus Services Officer to assess whether verifying driver eligibility for each trip is the most effective approach.

Centralized Maintenance Records – During the audit, we implemented FleetCommander to track vehicle maintenance. Each vehicle is now assigned a maintenance plan based on manufacturer-recommended service intervals. Maintenance reminders are automatically generated using the current mileage recorded during vehicle check-in or fueling. Services will be completed within 15 days of the scheduled maintenance, with real-time tracking available via FleetCommander’s live dashboard. Work orders and service receipts are stored in each vehicles profile, with services entered by the Fleet Coordinator and verified for accuracy and completion by the Fleet Manager on a weekly basis.

Accident Processes – Currently, TSTC requires a SORM report for all accidents, vehicle damage, and glass claims. Risk Management will review the process to ensure compliance and that all documents are stored centrally. Fleet Services will collaborate with Risk Management to establish clear options, requirements, and processes for alcohol and drug testing following every accident.

GPS Tracking System/Telematics – Fleet Services has successfully completed the RFP, contract process, and budgeting for the Geotab Telematics System. Policy approval and implementation mark the fourth phase of the fleet digital transformation. Management of this phase will begin once the statewide installation of a key box system is complete.

Fuel Purchase Reconciliation – Fleet Services is currently reviewing the mileage log and fuel receipt process and will develop a detailed reconciliation procedure with accountability measures.

Kristin Sondermann, Fleet Manager, will oversee the implementation of these corrective action plans by January 31, 2025.

AUDIT FINDING DETAIL

Finding 2: Vehicles labeled as educational are generally not subject to the same controls applied to fleet vehicles, even though some are being used like fleet vehicles.

Criterion: While reviewing fleet management processes we learned that the College's vehicles are categorized three different ways: motor pool, departmental, and educational. Motor pool and departmental vehicles are considered fleet vehicles. Any vehicle that was labeled as lab/ training at time of acquisition is considered an educational vehicle. Since educational vehicles are not part of the fleet, they do not have the same oversight as motor pool and departmental vehicles.

While working on this audit, we verified the misuse of an educational vehicle being used like a fleet vehicle. This resulted in an immediate separation of employment. That investigation highlighted the lack of insight into the actual of use educational vehicles. We identified 173 vehicles that are owned by the College. Of those, 55 are recognized as part of the College's fleet. These 55 are subject to *some* of the fleet controls, but there are gaps in controls related to driver verification, legitimate use, and maintenance/registration. Insurance coverage could also possibly be a gap.

From direct observation, we feel that most of the educational vehicles are being used solely as trainers for education. Nevertheless, we recommend a comprehensive review be performed to identify all vehicles being used like fleet vehicles, so that the same controls applied to fleet vehicles can be implemented on these vehicles.

Consequences: Increased risk for misuse, lack of maintenance, inadequate insurance coverage, etc. Also, increased costs associated with vehicles that carried solely for the benefit of convenience.

Possible Solutions: Perform a thorough review of all vehicles owned by the College and determine how they are being used. Subject educational vehicles being used as fleet vehicles to the same oversight as the fleet.

Management Response

The Fleet Services Department agrees with the observations. To address the finding the following actions will be taken:

Current Assets – Fleet Services will partner with the Property Management Department to determine the exact use of vehicles not currently managed by Fleet Services. Additionally, Fleet Services will explore whether FleetCommander can provide a solution for managing these assets in a manner consistent with other fleet vehicles. A follow up with Internal Audit regarding management solutions and processes will be provided by November 1, 2024.

New Assets – Fleet Services is collaborating with Procurement to develop and implement a streamlined workflow process for new vehicle requests and approval through Workday. An update on this initiative will be shared with Internal Audit by January 31, 2025. Kristin Sondermann, Fleet Manager, will be responsible for the implementation of this corrective action plan.

An Executive Summary of TAC-202 at Texas State Technical College

November 2024

The *Texas Administrative Code, Section 202* (commonly known as TAC-202) creates the minimum standards for IT security at state agencies. TSTC is subject to these requirements.

The *Texas Department of Information Resources*, the chief IT agency in Texas, provides agencies with a resource for fulfilling TAC-202. These guidelines are published in a *controls catalog* that classifies controls as either required or recommended.

There are 135 required controls that agencies must apply to the general IT environment and/or their individual systems. Such required controls relate to access, change management, audit logging, back-up & recovery, maintenance, and various physical safeguards.

TAC-202 is so broad and so comprehensive that agencies across the state struggle to comply with the daunting scope of the rules. Indeed, reaching full compliance can take many years for some while other agencies may never reach the goal.

Since the work cannot possibly be completed all at once, the TSTC approach to TAC-202 has been to first target the high-risk and/or mission critical systems. Then, in turn, the various requirements are addressed in a logical sequence of declining risk levels. This work is ongoing today.

While an internal audit is required biennially, TSTC has elected to practice a higher degree of audit frequency in TAC-202. In a collaboration between Internal Audit Department and the TSTC IT staff, the college has a *continuous* audit process. This approach exceeds the minimum requirements and ensures a better pace of continuous improvement toward final completion.

As a result of these continuous efforts, a detailed database of controls shared by both IT and Internal Audit has been built that memorializes the required controls that have been audited, as well as the current status of their implementation. This database is invaluable in managing and documenting the extensive efforts to comply and ensure IT security.

An executive summary of the progress made by TSTC in TAC 202 is presented quarterly by Internal Audit to the Board of Regents in a report called: *TAC 202 Compliance – Quarterly Update*. This report follows.





To: Audit Committee
 From: Jason D. Mallory, VC/CAE
 Subject: TAC 202 Compliance – Quarterly Update
 Date: October 1, 2024

The purpose of this memo is to provide you the current implementation statuses of IT controls required by TAC 202 tested in numerous internal audits conducted since 2017. Annually, the list of audits of systems will increase as we continue to audit. Each quarter we test select controls which were previously not implemented. From July 1 through September 30, 2024, 4 more controls were implemented – 3 related to the T Drive, and 1 related to the CRIMES software. There are currently 31 controls from past audits to test. For the systems that are lightly shaded, all controls have been implemented.

RESULTS

General Controls

Original Audit: June 28, 2017

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted ^{Note 1}	Total
As of December 2021	63	19	0	4	86

Note 1: Management has elected to not implement controls SC-20 & SC-21 because implementing is too costly, and does not provide additional risk mitigation. Furthermore, they have researched other agencies and institutions of higher education, and no one else has implemented the controls. IA-7 relates to cryptographic modules. There are no systems or environments that use these. Finally, they have elected to accept risks with not fully implementing CM-11 related to fully restricting software from being installed by end-users. They feel that compensating controls such as malware, and the ability to restrict specific downloads from the internet assist with mitigating associated risks.

Colleague

Original Audit: June 28, 2017

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted	Total
As of March 2022	38	11	0	0	49

Perceptive Content

Original Audit: June 28, 2017

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted ^{Note 2}	Total
As of March 2022	33	15	0	1	49

Note 2: AU-5 requires the system to send an alert when an audit log fails. This system does not have that capability.

Maxient

Original Audit: February 25, 2019

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted	Total
As of December 2021	46	3	0	0	49

Google Suite

Original Audit: December 10, 2018

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted ^{Note 3}	Total
As of December 2021	38	9	0	2	49

Note 3: AC-7 requires the system to lock for at least 15 minutes after 10 failed logon attempts. AC-8 requires a banner to be displayed that indicates unauthorized access is prohibited before a user signs on. This system does support either of these requirements. The risk of unauthorized access is mitigated by other compensating controls.

Target X

Original Audit: September 30, 2019

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted	Total
As of December 2021	48	1	0	0	49

Informatica Server

Original Audit: September 30, 2019

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted	Total
As of December 2021	49	0	0	0	49

PrismCore

Original Audit: September 21, 2020

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted ^{Note 4}	Total
As of December 2021	42	6	0	1	49

Note 4: AU-5 requires the system to send an alert when an audit log fails. This system does not have that capability.

Informer

Original Audit: April 6, 2021

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted	Total
As of June 2022	38	11	0	0	49

VPN

Original Audit: November 22, 2021

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted ^{Note 5}	Total
As of September 2022	50	0	0	2	52

Note 5: AU-5 requires monitoring of audit log failures. Implementing this control would require a 3rd party software add-on, which we do not feel the benefit of doing so outweighs the cost. We have a compensating control where we monitor logs monthly. CP-4 requires periodic back-up testing. The testing of this control would cause a disruption to services provided to employees working remotely. There are compensating controls of stored backup configurations. OIT tests the backups before completing any upgrades or updates to the appliance.

Canvas LMS

Original Audit: May 20, 2022

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted	Total
As of December 2022	43	10	0	0	53

TWC Server

Original Audit: May 16, 2022

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted	Total
Jan 2023 – Mar 2023	47	4	0	0	51

T Drive

Original Audit: March 17, 2023

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted	Total
July 2024 – September 2024	40	0	1	0	41
April 2024 – June 2024	37	0	4	0	41
Difference	+3	0	-3	0	

IT General Controls

Original Audit: June 23, 2023

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted ^{Note 4}	Total
July 2024 – September 2024	24	6	3	1	34
April 2024 – June 2024	24	6	3	1	34
Difference	0	0	0	0	

Note 4: In Note 1 for the General Controls Audit conducted in FY 2017, management elected to not fully implement CM-11 related to end-user installed software. They feel compensating controls such as malware and the ability to restrict specific downloads from the internet assist with mitigating associated risks. They continue to accept this risk to the extent it is not fully controlled by completely restricting administrator rights on laptops and PCs. .

CRIMES

Original Audit: March 17, 2023

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted	Total
July 2024 – September 2024	20	1	27	0	48
April 2024 – June 2024	19	1	28	0	48
Difference	+1	0	-1	0	

Submitted by:



 Jason D. Mallory, CPA, CIA

October 1, 2024

Date

 cc: Mike Reeser, Chancellor/CEO
 Dale Bundy, VC/CIO



A Report on

Agencies', Higher Education Institutions', and Community Colleges' Compliance with Public Funds Investment Act and Rider 5, General Appropriations Act, Reporting Requirements

Lisa R. Collier, CPA, CFE, CIDA
State Auditor

Most agencies, higher education institutions, and community colleges subject to the Public Funds Investment Act (Texas Government Code, Chapter 2256) provided compliance audit reports indicating that they fully or substantially complied with the Act for the biennial period ending on January 1, 2024. One higher education institution provided a report indicating minimal compliance, and one community college did not provide a compliance audit report.

Additionally, higher education institutions, including universities, university systems, and community colleges, are subject to the reporting requirements established in Rider 5, pages III-284 through III-285, General Appropriations Act (88th Legislature), and prescribed by the State Auditor's Office. Most of those institutions complied with Rider 5, as Figure 1 on the next page indicates.

- [Background](#) | p. 3
- [Project Objectives](#) | p. 13

This project was conducted in accordance with Texas Government Code, Section 2256.005, and Rider 5, pages III-284 through III-285, General Appropriations Act (88th Legislature).

NOT RATED

ENTITIES' COMPLIANCE WITH ACT AND RIDER 5 REQUIREMENTS

For the compliance reporting period ended January 1, 2024, most entities subject to the Act submitted the required compliance audit reports. Most higher education institutions complied with Rider 5 reporting requirements.







[Chapter 1](#) | p. 5

For more information about this project, contact Audit Manager Jennifer Brantley or State Auditor Lisa Collier at 512-936-9500.

August 2024 | Report No. 24-020

Figure 1

Summary of Compliance Status

Entity	Compliance Status ^a					
	<i>The Act</i> ^b				<i>Rider 5</i> ^c	
	Fully Compliant	Substantially Compliant	Minimally Compliant	Non-compliant	Fully Compliant	Substantially Compliant
						
Agencies Subject to the Act but not Rider 5	10 (of 12)	2 (of 12)	0 (of 12)	0 (of 12)	N/A	N/A
Higher Education Institutions Subject to the Act and Rider 5	0 (of 2)	1 (of 2)	1 (of 2)	0 (of 2)	1 (of 2)	1 (of 2)
Community Colleges Subject to the Act and Rider 5	48 (of 50)	1 (of 50)	0 (of 50)	1 (of 50)	50 (of 50)	0 (of 50)
Higher Education Institutions Subject to Rider 5 but not the Act		N/A			7 (of 7)	0 (of 7)

^a Compliance was determined using the following categories:

Act Compliance Categories



Fully Compliant: No findings were reported by internal or external auditors.



Minimally Compliant: Some findings were reported that were significant to policies, contracting, training, reporting, reviewing, or auditing.



Substantially Compliant: Few findings were reported that may include a significant finding related to policies, contracting, training, reporting, reviewing, or auditing.



Noncompliant: The required compliance report was not provided or contained many findings that were significant to policies, contracting, training, reporting, reviewing, or auditing.

Rider 5 Compliance Categories



Fully Compliant: Investment disclosures met all reporting requirements.



Minimally Compliant: Investment disclosures had some significant omissions.



Substantially Compliant: Investment disclosures met most reporting requirements, with minor omissions.



Noncompliant: Investment disclosures omitted all or most of the required disclosures or reports.

^b Most of the entities tested were either fully or substantially compliant with the Act; however, one entity was minimally compliant, and one entity was noncompliant.

^c All but one of the entities tested were fully compliant with Rider 5.

Background Information

Public Funds Investment Act (Act)

The Legislature enacted the Public Funds Investment Act (Act) in 1995 to improve the transparency and management of investments by state agencies, higher education institutions, community colleges, and local governments. The Act (Texas Government Code, Chapter 2256) requires certain state agencies, higher education institutions, and community colleges to implement controls in the form of investment policies, contracting, training, reporting, and reviewing. The Act contains multiple requirements for each of those areas, and the agencies' internal or external auditors must test compliance with those policies every two years and provide those audits to the State Auditor's Office by January 1 of every even-numbered year.

The State Auditor's Office reviews the biennial compliance reports and assigns ratings using defined compliance levels ([see Figure 1 on page 2 for definitions](#)).

Rider 5, The General Appropriations Act (88th Legislature)

Higher education institutions, including universities, university systems, and community colleges, are subject to the reporting requirements established in Rider 5, pages III-284 through III-285, General Appropriations Act (88th Legislature), and prescribed by the State Auditor's Office. Specifically, Rider 5 requirements include the following:

- Submitting an annual investment report, [prepared in a method prescribed by the State Auditor's Office](#), to the State Auditor's Office, the Office of the Comptroller of Public Accounts, the Office of the Governor, and the Legislative Budget Board.
- Publishing or disclosing the following information on the higher education institution's website:
 - The annual investment report described above.

- Quarterly investment reports.
- Current investment policies.
- The use of outside investment advisors or managers.
- The use of soft dollar agreements, directed brokerage or directed commission, commission recapture, or similar arrangements.¹
- Associations with independent endowments or foundations.

¹ Those arrangements typically involve using brokerage commissions as a means of paying for other related investment services through credits of a portion of brokerage commissions paid, rather than through direct payments or using selected brokers who rebate a portion of the commission they receive on trades for the investor.

Higher Education Institutions' Compliance with the Act and Investment Reporting Requirements of Rider 5

Compliance with the Act

The Act defines state agencies to include higher education institutions with authority to invest public funds. However, higher education institutions that had total endowments of \$150 million in book value as of September 1, 2017, are exempt from the Act. Excluding community colleges, which are presented separately in this chapter, auditors determined that two higher education institutions were required to follow the Act and seven higher education institutions were exempt from the Act.

Both higher education institutions determined to be subject to the Act provided compliance audit reports for the biennial period ending on January 1, 2024. One institution provided a report that indicated it substantially complied with the Act, and one institution provided a report that indicated it minimally complied with the Act. Figure 3 on the next page shows ratings for compliance by higher education institutions subject to the Act. The specific instances of noncompliance with the Act are noted in Appendix 2.

Compliance with Rider 5








Rider 5 requires all higher education institutions to provide an annual report of investment transactions, in a manner prescribed by the State Auditor's Office.

For the higher education institutions determined by auditors to be subject to the Act, one higher education institution was determined to be fully compliant with Rider 5 requirements, and one higher education institution was determined to be substantially compliant. All seven of the higher education institutions determined by auditors to be exempt from the Act were fully compliant with Rider 5 requirements.

Figure 3 and Figure 4 on the next page show ratings for compliance by higher education institutions. Rider 5 compliance testing is for the fiscal year ended August 31, 2023, with investment balances also as of August 31, 2023.

Figure 3

Higher Education Institutions' Compliance (Subject to the Act) and Market Value of Investments

Act	Rider	University	Market Value of Investments as of August 31, 2023 ^a
		Texas Southern University	\$ 94,593,978
		Texas State Technical College System	340,797,390
Total			\$ 435,391,368
 Fully Compliant  Substantially Compliant  Minimally Compliant			









For definitions of compliance status, [see Figure 1 on page 2](#).

^a This table includes investment information only for higher education entities subject to the Act and does not include cash. The amounts in this table are based on self-reported information and are rounded to the nearest dollar. Auditors did not perform tests or other procedures to verify the accuracy of the reported amounts. These amounts include higher education institutions' investments that are subject to the Act but exclude higher education institutions' investments in the Texas Treasury Safekeeping Trust Company (TexPool and TexPool Prime) to prevent counting those holdings twice.

Sources: Annual investment reports as of August 31, 2023, provided by the university and the system.

Figure 4

Higher Education Institutions' Compliance (Exempt from the Act) and Market Value of Investments

Rider	University or System	Market Value of Investments as of August 31, 2023 ^a
	Texas A&M University System	\$ 8,190,246,098
	Texas State University System	936,788,767
	Texas Tech University System	4,054,837,446
	Texas Woman's University	455,401,094
	The University of Houston System	2,275,930,118
	The University of North Texas System	936,138,892
	The University of Texas System	85,673,848,578
Total		\$102,523,190,993
 Fully Compliant		

For definitions of compliance status, [see Figure 1 on page 2](#).

Appendix 2

Instances of Noncompliance with the Act

Figure 6 provides information on the instances of noncompliance reported by the internal and external auditors of agencies, higher education institutions, and community colleges that are subject to the Public Funds Investment Act (Act).

Figure 6

Entities That Were Not Fully Compliant With the Act (From Compliance Audit Reports for the Reporting Period Ending January 1, 2024)

Entity	Area of Noncompliance	Internal or External Auditor Findings ^a
Agencies That Were Substantially Compliant With the Act		
Real Estate Commission	Reporting	[Internal Audit found that] <i>the required investment officer training compliance report was not submitted to the Commissioners and TALCB Board [Texas Appraiser and Licensing Certification Board] within 180 days of the last regular legislature date.</i>
Texas Access to Justice Foundation	Training	[Internal Audit found that] <i>one investment officer did not attend training within six months of assuming duties.</i>
	Reporting	<i>A report on section 2256.007 subchapter (d) was not delivered to the Board of Directors within 180 days of the last day of the 2023 regular session of the legislature.</i>
	Reporting	<i>The December 2022 and June 2023 quarterly investment reports were not submitted to the Board of Directors.</i>
	Compliance	<i>Beginning in December 2021, the Foundation began holding government bonds and treasury notes. A formal review by an independent auditor of the quarterly investment reports from December 2021 to December 2022 was not done.</i>

Entity	Area of Noncompliance	Internal or External Auditor Findings ^a
Higher Education Institutions That Were Substantially Compliant With the Act		
Texas State Technical College	Reporting	[Internal Audit identified] <i>three minor exceptions related to incorrect maturity dates and an interest rate reported on the May 31, 2023, Quarterly Investments Report. Additionally, [they] noted one exception on the May 31, 2023, Pledged Collateral Report, which overstated collateral by \$11,192. With stated collateral adjusted for the error, the collateral amount was still more than sufficient.</i>
Higher Education Institutions That Were Minimally Compliant With the Act		
Texas Southern University	Reporting	[Internal Audit found that] <i>Management did not fully complete the quarterly investment summary reports for November 2022 and February 2023.</i>
	Reporting	<i>The quarterly summary investment reports do not include fully accrued interest and maturity dates of investments.</i>
	Reporting	<i>Monthly reconciliations were not performed in a timely manner to adjust the general ledger and reflect activity in the endowment funds held at US Bank. As a result:</i> <ul style="list-style-type: none"> • <i>The non-endowment balance in the general ledger does not agree with the amount in the February 2023 quarterly investment summary report.</i> • <i>The endowment balance in the general ledger does not agree with the amount in the February 2023 ACG report.</i>
Community Colleges That Were Substantially Compliant With the Act		
Lone Star College System	Training	[Internal Audit] <i>noted one board member completed their training nine months after they were sworn in, noting completion was outside the required six-month period.</i>
^a The findings presented are direct excerpts from the entities' audit reports.		

Source: State Auditor's Office review of the compliance audit reports issued by the entities' auditors.

September 11, 2024

Chad Wooten
Vice Chancellor & CFO
Texas State Technical College
3801 Campus Drive
Waco, TX 76705

RE: FY 2022 Perkins Desk Review Management Letter
ALN #84.048

Dear Chad Wooten:

The Texas Higher Education Coordinating Board (THECB), as a federal pass-through entity, must provide due diligence to ensure its subrecipients meet the requirements of the Carl D. Perkins Career and Technical Education Improvement Act of 2006.

This letter serves to communicate desk review compliance issue(s), if any, on federal funds awarded to your institution by THECB.

Desk Review Findings:	Compliance Assessment
Salaries and Fringe Benefits Expense	Complied
Travel Expense	N/A
Capital Outlay/ Equipment Expense	Complied
Consultant Fees	Complied
Operating Expenses	Complied
Administrative Expense	Complied
Supplanting Policy	Complied

We greatly appreciate the cooperation and assistance provided by your staff during our review. If you have any questions or comments, please contact Carson Beierman via email at carson.beierman@highered.texas.gov.

Thank you for your assistance,



Arby James Gonzales, CPA, CFE
Assistant Commissioner, Internal Audit and Compliance



Texas State Technical College
Internal Audit
Attestation Disclosures

Responsible Management	Issue Reported by Management	Report Date	Management's Corrective Action Plan	Internal Audit Assistance/Follow-up
No new reports were made.				

The noted items were reported during the attestation process, and have been disclosed to the Chancellor. These were deemed to be worthy of disclosure to the Audit Committee.